



**CITY COUNCIL & MORGAN HILL
FINANCING AUTHORITY STAFF
REPORT**

Agenda Item # 5

Prepared By:

Finance Director

Submitted By:

City Manager

MEETING DATE: *January 26, 2005*

REFINANCING OF MADRONE BUSINESS PARK

ASSESSMENT DISTRICT BONDS – SERIES 2000-1

RECOMMENDED ACTIONS:

1. Open and close the public hearing
2. As the City Council, adopt the Resolution declaring its intention to issue refunding bonds and directing preparation of a reassessment report.
3. As the City Council, adopt the Resolution approving a reassessment report and confirming reassessments.
4. As the City Council, adopt the Resolution authorizing the issuance and sale of bonds.
5. As the City Council, adopt the Resolution making a finding of significant public benefit.
6. As the Authority Commission of the Financing Authority, adopt the Resolution authorizing the issuance, sale, and delivery of bonds.
7. As the City Council, approve agreements with RBC Dain Rauscher Inc. for financial advisory services, with Richards, Watson & Gershon for bond counsel and disclosure counsel services, with NBS Government Finance Group for reassessment engineering services, and with Carnegie-Blum & Partners, Inc. for appraisal services; and direct the City Manager to execute these agreements.

EXECUTIVE SUMMARY: The City plans to refund the outstanding Madrone Business Park Assessment District Series 2000-1, Limited Obligation Improvement Bonds in order to take advantage of lower interest rates and provide property owners within the Madrone Business Park Assessment District (the “District”) with lower annual assessment payments.

Pursuant to California State law, certain requirements must be met in order to refund assessment district bonds. One of these requirements is for the principal amount of the refunding assessment bonds (the “reassessment bonds”) to be less than or equal to the principal amount of the old, or refunded, assessment bonds. In order to meet the State law requirement, the City is utilizing a financing structure allowed under the Marks-Roos Local Bond Pooling Act of 1985. This financing structure calls for a two-tiered debt structure. The first tier “Local Obligation Bonds” will not exceed the principal amount of the old assessment bonds being refunded. This tier constitutes the actual new lien against the District’s property owners and will meet the legal requirement. The City will authorize and issue the new Local Obligation Bonds and then sell them to the Authority, which will then simultaneously issue the second tier “Authority Bonds.” The Authority will then sell the Authority Bonds to investors at interest rates that will result in lower annual assessments to the property owners. The interest rates on the Local Obligation Bonds will be set at levels that will be sufficient to produce principal and interest payments that will amortize the principal and interest payments on the Authority Bonds.

FISCAL IMPACT: *By refinancing, the City will save property owners approximately \$1.4 million in gross dollars or \$700,000 in net present value dollars. This represents a savings of approximately 7% to those owners.*

SUMMARY OF ATTACHMENTS**

	<u>Attachment</u>
1) City Council Resolution declaring intention to issue refunding bonds	A
2) City Council Resolution approving reassessment report and confirming reassessments	B
3) Reassessment Report	C
4) City Council Resolution authorizing the issuance of refunding improvement bonds	D
5) Preliminary Official Statement	E
6) Bond Purchase Agreement for reassessment bonds	F
7) Bond Purchase Contract for Authority reassessment revenue bonds	G
8) Fiscal Agent Agreement	H
9) Escrow Agreement	I
10) Continuing Disclosure Agreement	J
11) City Council Resolution making finding of significant public benefit	K
12) Authority Resolution authorizing the issuance of Authority reassessment revenue bonds	L
13) Indenture of Trust	M
14) Financial Advisory Agreement	N
15) Special Legal Counsel Agreement	O
16) Reassessment Engineering Services Agreement	P
17) Appraisal Agreement	Q

** The documents listed above have not been included in the general agenda packet, but have been distributed, by supplement, to the City Council for their review. These documents are available for review by the public on the City's web page and are also available for review at the City Clerk's office at City Hall.

RESOLUTION NO. _____

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MORGAN HILL, CALIFORNIA, DECLARING ITS INTENTION TO ISSUE REFUNDING BONDS FOR ASSESSMENT DISTRICT NO. 2000-1 (MADRONE BUSINESS PARK); DIRECTING THE PREPARATION OF A REPORT PURSUANT TO SECTION 9523 OF THE CALIFORNIA STREETS AND HIGHWAY CODE; MAKING OTHER DETERMINATIONS RELATING TO THE REFUNDING; AND DIRECTING OTHER MATTERS RELATING THERETO

RECITALS:

WHEREAS, the City of Morgan Hill (the “City”) has heretofore formed Assessment District No. 2000-1 (Madrone Business Park) (the “District”) pursuant to the Municipal Improvement Act of 1913 (the “Improvement Act”) as set forth in Division 12 (commencing with Section 10000) of the California Streets and Highway Code (the “Code”); and

WHEREAS, the City has issued, pursuant to the Improvement Bond Act of 1915 as set forth in Division 10 (commencing with Section 8500) of the Code, its (i) Limited Obligation Improvement Bonds, Assessment District No. 2000-1 (Madrone Business Park), Series A 2000 (the “Prior 2000A Bonds”), of which \$8,620,000 in principal amount remain outstanding, and (ii) Limited Obligation Improvement Bonds, Assessment District No. 2000-1 (Madrone Business Park), Series B 2000 (Taxable) (the “Prior 2000B Bonds,” and together with the Prior 2000A Bonds, the “Prior Bonds”), of which \$1,440,000 in principal amount remain outstanding; and

WHEREAS, in light of currently favorable market conditions, the City has proposed issuing bonds (“Refunding Bonds”) in two series to refund the Prior Bonds pursuant to the Refunding Act of 1984 for 1915 Improvement Act Bonds (the “1984 Refunding Act”), as set forth in Division 11.5 (commencing with Section 9500) of the Code; and

WHEREAS, such refunding will be beneficial to the public as the amounts required for principal and interest payments each year for the Refunding Bonds are expected to be lower than those for the Prior Bonds; and

WHEREAS, the City Council desires to initiate proceedings to issue the Refunding Bonds pursuant to the 1984 Refunding Act; and

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF MORGAN HILL DOES HEREBY RESOLVE, FIND, DECLARE AND ORDER AS FOLLOWS:

Section 1. Recitals. The above recitals, and each of them, are all true and correct.

Section 2. Finding of Public Interest. Pursuant to Section 9520 of the Code, the City Council hereby finds that public interest requires the refunding of the Prior Bonds, subject to the City Council's review of the Reassessment Report described in Section 5 below.

Section 3. Declaration of Intention to Issue Refunding Bonds and Levy Reassessments. Pursuant to Section 9520 of the Code, and subject to the terms and conditions set forth in this Resolution, the City Council hereby declares its intention to issue the Refunding Bonds to refund the remaining outstanding Prior Bonds and levy reassessments ("Reassessments") against parcels in the District.

Section 4. Appointment of Reassessment Engineer, Financial Advisor, Bond Counsel and Appraiser. The appointments of (i) NBS Government Finance Group as the Reassessment Engineer, (ii) RBC Dain Rauscher Inc., as the financial advisor to the City, and (iii) Richards, Watson & Gershon, A Professional Corporation, as Bond Counsel, in connection with the above-described refunding are hereby approved. The appointment of Carneghi-Blum & Partners, Inc. to prepare an appraisal of all or a portion of the property in the District in connection with such refunding is hereby approved. Fees of each of the foregoing shall be paid from the proceeds of the Refunding Bonds and in accordance with the agreements on file in the office of the Finance Director of the City.

Section 5. Preparation of Reassessment Report. The Reassessment Engineer shall prepare and file with the office of the City Clerk, no later than 30 days after the date of this Resolution, a report (the "Reassessment Report") on the estimated Reassessments to be levied upon the issuance of the Refunding Bonds. The Reassessment Report shall contain (a) all of the information required by Section 9523 of the Code to be contained therein, and (b) such additional information as necessary and appropriate to enable the City Council to make a determination on whether the refunding, as proposed, will satisfy the conditions set forth in clauses (1) and (3) of Section 9525(a) of the Code.

Section 6. Limited Obligation of the City. The City shall not be obligated to advance available funds from the City Treasury to cure any deficiency which may occur in the bond redemption funds for the Refunding Bonds. This determination shall be clearly stated in the text of the Refunding Bonds. The designated names of the Refunding Bonds shall include the words "limited obligation refunding improvement bonds."

Section 7. Certain Terms of Refunding Bonds. The Refunding Bonds shall be issued and sold in the manner consistent with the 1984 Refunding Act and the conditions set forth below in this Resolution. Notice is hereby given as follows:

- (a) The Refunding Bonds shall (i) represent and be secured by unpaid Reassessments to be levied on parcels in the District, (ii) bear interest at a rate of not exceeding 12 percent per annum, or such other maximum interest rate permitted by law, and (iii) be issued in the manner provided by the 1984 Refunding Act.
- (b) The last installment of the Refunding Bonds shall mature on September 2nd of a year that is not later than 2025 (*i.e.*, the year of the final maturity for the Prior Bonds).
- (c) The Refunding Bonds may be issued in two series, and each series of bonds may be in the form of serial or term bonds, or a combination thereof.
- (d) Interest on the Refunding Bonds shall be payable on March 2nd and September 2nd of each year (each an "Interest Payment Date") during which the Refunding Bonds shall remain outstanding.

Section 8. Determinations Regarding Annual Principal and Interest. The City Council hereby determines as follows:

- (a) The principal amount of such Refunding Bonds maturing or becoming subject to mandatory prior redemption each year shall be other than an amount equal to an even annual proportion of the aggregate principal of such Refunding Bonds.
- (b) The amount of principal maturing or becoming subject to mandatory prior redemption in each year, plus the amount of interest payable in that year, shall be in an aggregate amount that is substantially equal each year; provided, however, that moneys falling due on the first maturity or the first mandatory prior redemption date may be adjusted to reflect the amount of interest earned from date when such Refunding Bonds bear interest to the date when the first interest on such Refunding Bonds is payable.

Section 9. Provisions for Redemption. The City Council hereby further determines as follows:

- (a) Each Refunding Bond, or any portion of thereof in a fixed amount or any integral multiple of the fixed amount, shall be subject to optional redemption in advance of its maturity on any Interest Payment Date upon payment to the registered owner of the principal and accrued interest to the date of redemption, together with a redemption premium. The redemption premium shall be in an amount equal to a percentage (which may be zero percent) of the principal of the Refunding Bonds subject to redemption, as determined in accordance with the resolution(s), indenture(s), fiscal agent agreement(s) or other similar instrument(s) pursuant to which the Refunding Bonds are to be issued; provided, however, that the redemption premium for the first five (5) years of the term of the Refunding Bonds shall be in an amount not less than three percent (3%) of the principal.

- (b) Notwithstanding the foregoing, to the extent that such Refunding Bonds include one or more term bonds, such term bonds shall be subject to mandatory prior redemption, without premium, through annual sinking fund installments conforming to the requirements of Section 8 of this Resolution.

Section 10. Collection of Reassessments and Advance Retirement of Refunding Bonds. Pursuant to Section 8760 of the Code, the City Council hereby proposes to proceed in accordance with Part 11.1 (commencing with Section 8760) of the Code with respect to the collection of the Reassessments and the advance retirement, if any, of the Refunding Bonds.

Section 11. Person Designated to Collect Reassessments. The City Council hereby designates the City Treasurer, or an agent designated by the City Treasurer in writing, to collect and receive the Reassessments.

Section 12. Original Assessment to Remain in Effect until Refunding Bonds Issuance. All original assessments ("Original Assessments") levied in the District relating to the Prior Bonds shall continue and remain in full force and effect until the Refunding Bonds have been issued by the City pursuant to the provisions of the 1984 Refunding Act. Upon issuance of the Refunding Bonds, the Original Assessments shall be superseded and supplanted by the Reassessments; provided, however, if any installment of Original Assessments with respect to a parcel in the District is unpaid as of the date of issuance of the Refunding Bonds, the lien of the Original Assessments with respect to such parcel shall continue and remain in effect.

Section 13. Other Acts. The officers of the City are hereby authorized and directed, jointly and severally, to do any and all things which they may deem necessary or advisable in order to effectuate the purposes of this Resolution and any such actions previously taken by such officers are hereby ratified and confirmed.

Section 14. Effective Date. This Resolution shall take effect immediately upon adoption.

PASSED AND ADOPTED by the City Council of the City of Morgan Hill at a regular meeting held on the 26th day of January, 2005, by the following vote:

AYES: COUNCIL MEMBERS:

NOES: COUNCIL MEMBERS:

ABSTAIN: COUNCIL MEMBERS:

ABSENT: COUNCIL MEMBERS:

Mayor

ATTEST:

City Clerk

RESOLUTION NO. _____

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MORGAN HILL, CALIFORNIA, APPROVING A REASSESSMENT REPORT PREPARED IN CONNECTION WITH THE ISSUANCE OF REFUNDING BONDS FOR ASSESSMENT DISTRICT NO. 2000-1 (MADRONE BUSINESS PARK); CONFIRMING REASSESSMENTS FOR SUCH REFUNDING BONDS; MAKING OTHER FINDINGS IN CONNECTION THEREWITH; ORDERING REFUNDING AND REASSESSMENTS; AND DIRECTING AND APPROVING OTHER MATTERS RELATING THERETO

RECITALS:

WHEREAS, the City of Morgan Hill (the “City”) has heretofore formed Assessment District No. 2000-1 (Madrone Business Park) (the “District”) pursuant to the Municipal Improvement Act of 1913 (the “Improvement Act”) as set forth in Division 12 (commencing with Section 10000) of the California Streets and Highway Code (the “Code”); and

WHEREAS, the City has issued, pursuant to the Improvement Bond Act of 1915 as set forth in Division 10 (commencing with Section 8500) of the Code, its (i) Limited Obligation Improvement Bonds, Assessment District No. 2000-1 (Madrone Business Park), Series A 2000 (the “Prior 2000A Bonds”), of which \$8,620,000 in principal amount remain outstanding, and (ii) Limited Obligation Improvement Bonds, Assessment District No. 2000-1 (Madrone Business Park), Series B 2000 (Taxable) (the “Prior 2000B Bonds,” and together with the Series A 2000 Bonds, the “Prior Bonds”), of which \$1,440,000 in principal amount remain outstanding; and

WHEREAS, the City Council of the City (the “City Council”) has adopted its Resolution No. _____ (the “Resolution of Intention”) and initiated proceedings to issue bonds (the “Refunding Bonds”) to refund all of the remaining Prior Bonds pursuant to the Refunding Act of 1984 for 1915 Improvement Act Bonds (the “1984 Refunding Act”), as set forth in Division 11.5 (commencing with Section 9500) of the California Streets and Highways Code (the “Code”); and

WHEREAS, in accordance with Section 9523 of the Code, the City Council has ordered NBS Government Finance Group (the “Reassessment Engineer”) to prepare a report on the reassessments to be levied in connection with the issuance of the Refunding Bonds; and

WHEREAS, the Reassessment Engineer’s report, entitled “City of Morgan Hill Assessment District No. 2000-1 (Madrone Business Park), Limited Obligation Refunding Improvement Bonds, Series 2005, Reassessment Report” (the “Reassessment Report”), has been presented to the City Council and is on file with the City Clerk;

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF MORGAN HILL DOES HEREBY RESOLVE, FIND, DECLARE AND ORDER AS FOLLOWS:

Section 1. Recitals. The above recitals, and each of them, are true and correct.

Section 2. Approval of Reassessment Report. The Reassessment Report, in the form presented to the City Council and on file with the City Clerk, is hereby approved.

Section 3. Findings Pursuant to Section 9525 of the Code. The City Council hereby determines that the following conditions have been satisfied:

- (a) Each estimated annual installment of principal and interest on the Reassessments, as set forth pursuant to Section 9523(d) of the Code, is less than the corresponding annual installment of principal and interest on the portion of the original assessment being superseded and supplanted, as set forth in Section 9523(c) of the Code, by the same percentage for all subdivisions of land within the District. Amounts, if any, added to the annual installments of the Reassessments because of delinquency in payment on the original assessments have not been considered in the calculation supporting this finding.
- (b) The number of years to maturity of all Refunding Bonds is not more than the number of years to the last maturity of the Prior Bonds.
- (c) The principal amount of the Reassessment on each subdivision of land within the District is less than the unpaid principal amount of the portion of the original assessment being superseded and supplanted by the same percentage for each subdivision of land within the District. Amounts, if any, added to the Reassessments because of delinquency in payment on the original assessments have not been considered in the calculation supporting this finding.

Section 4. Modifications to Reassessment Report. The City Council hereby authorizes the Mayor, the City Manager, the Treasurer, the Director of Finance, or any of them, to approve any necessary or appropriate modifications to the Reassessment Report to reflect changes in the amounts of contribution from existing moneys on hand with respect to District, and in any other amounts, so long as such modifications would not cause any of the findings set forth in Section 3 of this Resolution (as if made by the City Council after such modifications have been made) to be false. Such Reassessment Report, as modified pursuant to this Section 4, shall stand as the Reassessment Report for the purposes of these proceedings relating to the issuance of the Refunding Bonds.

Section 5. Confirmation of Reassessments. The public interest requires, and the City Council hereby orders, the refunding and reassessments for the District to be done and completed as described in and in accordance with the 1984 Refunding Act, the Resolution of Intention, this Resolution and the Reassessment Report. The Reassessments and the contribution from the existing funds of the District, set forth in the Reassessment Report, are hereby approved and confirmed, and a copy of this Resolution shall be entered upon the minutes of this meeting of the City Council.

Section 6. Authorization for Issuance of Refunding Bonds. The City Council hereby authorizes the issuance and sale of the Refunding Bonds to represent all unpaid Reassessments. The Refunding Bonds shall be issued in accordance with the provisions of the 1984 Refunding Act and the terms of the Refunding Bonds (including, but not limited to, interest rates, redemption provisions and maturity) shall be consistent with the parameters set forth in the Resolution of Intention.

Section 7. Incorporation of District Map; Omission of Certain Parcels from Reassessments. The properties within the District will benefit by the refunding and reassessment contemplated hereby and shall be assessed to pay the costs and expenses thereof, including installments of principal and interest on the Refunding Bonds. The exterior boundaries of District are shown on the map on file with the City Clerk and approved by the City Council's Resolution No. 5356, adopted on March 15, 2000. Such map is incorporated into this Resolution by this reference. All public streets, highways, lanes, rights-of-way, alleys and other public places within the District in use in the performance of any public function, all lands owned by any public entity, including the United States, the State of California, the County of Santa Clara (the "County") and any divisions or departments of any of them, and all parcels with respect to which assessment liens relating to the Prior Bonds have been discharged prior to the issuance of the Refunding Bonds shall be omitted from the reassessments to be levied.

Section 8. Recordation of Reassessments and Reassessment Diagram. The Reassessments provided for herein, together with the reassessment diagram related thereto, as set forth in the Reassessment Report are hereby approved and confirmed as the reassessments and reassessment diagram of the properties to be reassessed in the District in these proceedings. The final reassessments thereof shall immediately be recorded in the office of the Superintendent of Streets. Immediately thereafter, a copy of such reassessment diagram shall be filed in the office of the County Recorder and a Notice of Reassessment relating thereto, referencing such diagram, shall be recorded in the office of the County Recorder, all pursuant to the provisions of Division 4.5 (commencing with Section 3100, and specifically Section 3114) of the Code. Upon recordation, the reassessments shall become liens upon the various parcels of land assessed as shown on the reassessment diagram.

Section 9. Records and Collection of Reassessment Payments. A copy of this Resolution confirming the Reassessments authorized hereunder (which reassessments shall constitute the security for the Refunding Bonds) shall be filed in the office of the City Treasurer, and the City Treasurer shall keep the record showing the several installments of principal and interest on the reassessments that are to be collected each year during the term of the Refunding Bonds. An annual portion of each reassessment, together with annual interest on such reassessment, shall be payable in the same manner and at the same time and in the same installments as the general property taxes of the City and shall be payable and become delinquent at the same time and in the same proportionate amount. Each year the annual installments shall be submitted to the County Auditor for purposes of collection, and the County Auditor shall, at the close of the tax collecting season, promptly render to the City Treasurer a detailed report showing the amount of such installments, interest, penalties and percentages so collected.

Section 10. Other Acts. The officers of the City are hereby authorized and directed, jointly and severally, to do any and all things that they may deem necessary or advisable in order

to effectuate the purposes of this Resolution and any such actions previously taken by such officers are hereby ratified and confirmed.

Section 11. Effective Date. This Resolution shall take effect immediately upon adoption.

PASSED AND ADOPTED by the City Council of the City of Morgan Hill at a regular meeting held on the 26th day of January, 2005, by the following vote:

AYES: COUNCIL MEMBERS:

NOES: COUNCIL MEMBERS:

ABSTAIN: COUNCIL MEMBERS:

ABSENT: COUNCIL MEMBERS:

Mayor

ATTEST:

City Clerk

City of Morgan Hill

Assessment District No. 2000-1 (Madrone Business Park) Limited Obligation Refunding Improvement Bonds, Series 2005

Reassessment Report January 2005

Prepared by

N|B|S

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City of Morgan Hill
Assessment District No. 2000-1 (Madrone Business Park)
Limited Obligation Refunding Improvement Bonds, Series 2005

Reassessment Report
Division 11.5, Streets and Highways Code of the State of California

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City of Morgan Hill
Assessment District No. 2000-1 (Madrone Business Park)
Limited Obligation Refunding Improvement Bonds, Series 2005

Reassessment Report

WHEREAS, on _____, the City Council of the City of Morgan Hill (the "Agency"), pursuant to the provisions of the Refunding Act of 1984 for 1915 Improvement Act Bonds (the "Act"), adopted Resolution No. _____ (the "Resolution of Intention") declaring its intention to refund the outstanding bonds (the "Prior Bonds") of the Madrone Business Park Assessment District No. 2000-1 (the "District") and to levy reassessments on the property within the District as security for the refunding bonds;

WHEREAS, the Resolution of Intention directed the undersigned to make and file a report presenting a schedule setting forth the unpaid principal and interest of the Prior Bonds to be refunded and the total amounts thereof, the total estimated principal amount of the reassessment and of the refunding bonds and the maximum interest thereon, together with an estimate of the cost of the reassessment and of issuing the refunding bonds, the auditor's record showing the schedule of principal installments and interest on all unpaid original assessments and the total amounts thereof, the estimated amount of each reassessment, identified by reassessment number corresponding to the reassessment number of the reassessment diagram, together with a proposed auditor's record for the reassessment, and reassessment diagram showing the District and the boundaries and dimensions of the subdivisions of land within the District. Each subdivision, including separate condominium interest as defined in Section 783 of the Civil Code, shall be given a separate number upon the diagram to which Resolution reference is hereby made for further particulars;

NOW THEREFORE, the undersigned by virtue of the authorization provided in the Resolution of Intention has prepared this report regarding the reassessment to be levied pursuant to the Act on property within the District to accomplish the refunding of the Prior Bonds and which will be security for the refunding bonds.

The amounts to be paid for said refunding, together with the expenses incidental thereto, and the reassessment balance are set forth herein.

And I do hereby reassess and apportion the total amount of the cost and expenses of said reassessment and refunding upon the several lots, pieces or parcels or portions of lots or subdivisions of land liable therefore and benefited thereby, and hereinafter numbered to correspond with the numbers upon the attached diagram, upon each thereof, severally and respectively, as more particularly set forth in the reassessment roll attached and by reference made a part hereof.

City of Morgan Hill
Assessment District No. 2000-1 (Madrone Business Park)
Limited Obligation Refunding Improvement Bonds, Series 2005

There were \$100,000 in principal amount of Series A Bonds and \$20,000 in principal amount of Series B Bonds called using surplus funds. The assessment lien on each parcel is not reduced by these bond calls. However, to the extent that money is available in any year, after taking into account delinquencies and other expenses of the District, each parcel may be given a credit which in effect reduces that year's assessment. The schedules set forth on pp. 13 through 32 of this report compare the amortization of the reassessments based on the proposed debt service schedule of the refunding bonds and the amortization of the refunded assessment based on the Auditor's Records. These schedules do not take into account the bond calls performed using the surplus funds or the potential annual credits that property owners may receive.

As required by the Act, a diagram hereto attached shows the District and also the boundaries and dimensions of the respective subdivisions of land within the District as the same existed at the time of the passage of the Resolution of Intention, each of which subdivisions having been given a separate number upon said diagram.

Said reassessment is made upon the several subdivisions of land within the District in proportion to the unpaid principal amount of the original assessment recorded as a lien against each said subdivisions of land. The assessment identification numbers set forth in the Reassessment Roll and elsewhere herein are the identifying numbers of the parcels of land within the District as they appear on the Reassessment Diagram.

Each subdivision of land reassessed is described in the Reassessment Roll by reference to its parcel number as shown on the Assessor's Maps of the County of Santa Clara for fiscal year 2004-05 and includes all such parcels. For a more particular description of said property, reference is hereby made to the deeds and maps on file and of record in the office of the County Recorder of said County.

Notice is hereby given that serial refunding bonds to represent unpaid reassessments and bear interest at the rate of not to exceed twelve percent (12%) per annum, will be issued thereunder in the manner provided by Chapter 3 of Division 11.5 of the Streets and Highways Code, the Refunding Act of 1984 for 1915 Improvement Act Bonds, and the last installment of such refunding bonds shall mature not later than September 2, 2025.

Dated as of _____

NBS

CITY OF MORGAN HILL
Assessment District No. 2000-1 (Madrone Business Park)
Limited Obligation Refunding Improvement Bonds, Series 2005

Cost Estimate

SOURCES:

(1) Par Amount of Bonds	<u>\$10,055,000.00</u>
TOTAL SOURCES	\$10,055,000.00

USES:

(1) Bond Proceeds*	<u>\$10,055,000.00</u>
TOTAL USES	\$10,055,000.00

* Includes amounts to be deposited in the escrow fund for refunding the Prior Bonds and the following estimated costs of issuance:

Item

Financial Advisor	\$ 50,500.00
City Admin. Fee	53,575.00
Appraisal	7,000.00
Assessment Engineer	5,250.00
Bond Counsel	51,125.00
Disclosure Counsel	25,325.00
Counsel Fee for Reassessment Proc.	2,000.00
Trustee	4,100.00
Escrow Agent	2,500.00
POS/OS Printing	9,000.00
Verification Agent	3,000.00
Contingency	10,000.00
TOTAL	\$223,375.00

CITY OF MORGAN HILL
Assessment District No. 2000-1 (Madrone Business Park)
Limited Obligation Refunding Improvement Bonds, Series 2005

Series A - Refunded Bonds Original Debt Service Schedule

Payment Date	Interest Rate	Principal	Interest	Semi-Annual Payment	Total
3/2/2005			\$292,887.50	\$292,887.50	
9/2/2005	5.650%	\$210,000.00	292,887.50	502,887.50	\$795,775.00
3/2/2006			286,955.00	286,955.00	
9/2/2006	5.750%	220,000.00	286,955.00	506,955.00	793,910.00
3/2/2007			280,630.00	280,630.00	
9/2/2007	5.800%	235,000.00	280,630.00	515,630.00	796,260.00
3/2/2008			273,815.00	273,815.00	
9/2/2008	5.900%	250,000.00	273,815.00	523,815.00	797,630.00
3/2/2009			266,440.00	266,440.00	
9/2/2009	6.000%	260,000.00	266,440.00	526,440.00	792,880.00
3/2/2010			258,640.00	258,640.00	
9/2/2010	6.100%	280,000.00	258,640.00	538,640.00	797,280.00
3/2/2011			250,100.00	250,100.00	
9/2/2011	6.200%	295,000.00	250,100.00	545,100.00	795,200.00
3/2/2012			240,955.00	240,955.00	
9/2/2012	6.300%	315,000.00	240,955.00	555,955.00	796,910.00
3/2/2013			231,032.50	231,032.50	
9/2/2013	6.400%	335,000.00	231,032.50	566,032.50	797,065.00
3/2/2014			220,312.50	220,312.50	
9/2/2014	6.500%	355,000.00	220,312.50	575,312.50	795,625.00
3/2/2015			208,775.00	208,775.00	
9/2/2015	7.000%	380,000.00	208,775.00	588,775.00	797,550.00
3/2/2016			195,475.00	195,475.00	
9/2/2016	7.000%	405,000.00	195,475.00	600,475.00	795,950.00
3/2/2017			181,300.00	181,300.00	
9/2/2017	7.000%	430,000.00	181,300.00	611,300.00	792,600.00
3/2/2018			166,250.00	166,250.00	
9/2/2018	7.000%	465,000.00	166,250.00	631,250.00	797,500.00
3/2/2019			149,975.00	149,975.00	
9/2/2019	7.000%	495,000.00	149,975.00	644,975.00	794,950.00
3/2/2020			132,650.00	132,650.00	
9/2/2020	7.000%	530,000.00	132,650.00	662,650.00	795,300.00
3/2/2021			114,100.00	114,100.00	
9/2/2021	7.000%	565,000.00	114,100.00	679,100.00	793,200.00
3/2/2022			94,325.00	94,325.00	
9/2/2022	7.000%	605,000.00	94,325.00	699,325.00	793,650.00
3/2/2023			73,150.00	73,150.00	
9/2/2023	7.000%	650,000.00	73,150.00	723,150.00	796,300.00
3/2/2024			50,400.00	50,400.00	
9/2/2024	7.000%	695,000.00	50,400.00	745,400.00	795,800.00
3/2/2025			26,075.00	26,075.00	
9/2/2025	7.000%	745,000.00	26,075.00	771,075.00	797,150.00
Totals		\$8,720,000.00	\$7,988,485.00	\$16,708,485.00	\$16,708,485.00

CITY OF MORGAN HILL
Assessment District No. 2000-1 (Madrone Business Park)
Limited Obligation Refunding Improvement Bonds, Series 2005

Series B - Refunded Bonds Original Debt Service Schedule

Payment Date	Interest Rate	Principal	Interest	Semi-Annual Payment	Total
3/2/2005			\$70,580.00	\$70,580.00	
9/2/2005	9.400%	\$25,000.00	70,580.00	95,580.00	\$166,160.00
3/2/2006			69,405.00	69,405.00	
9/2/2006	9.400%	25,000.00	69,405.00	94,405.00	163,810.00
3/2/2007			68,230.00	68,230.00	
9/2/2007	9.400%	30,000.00	68,230.00	98,230.00	166,460.00
3/2/2008			66,820.00	66,820.00	
9/2/2008	9.400%	30,000.00	66,820.00	96,820.00	163,640.00
3/2/2009			65,410.00	65,410.00	
9/2/2009	9.400%	35,000.00	65,410.00	100,410.00	165,820.00
3/2/2010			63,765.00	63,765.00	
9/2/2010	9.400%	40,000.00	63,765.00	103,765.00	167,530.00
3/2/2011			61,885.00	61,885.00	
9/2/2011	9.400%	40,000.00	61,885.00	101,885.00	163,770.00
3/2/2012			60,005.00	60,005.00	
9/2/2012	9.400%	45,000.00	60,005.00	105,005.00	165,010.00
3/2/2013			57,890.00	57,890.00	
9/2/2013	9.650%	50,000.00	57,890.00	107,890.00	165,780.00
3/2/2014			55,477.50	55,477.50	
9/2/2014	9.650%	55,000.00	55,477.50	110,477.50	165,955.00
3/2/2015			52,823.75	52,823.75	
9/2/2015	9.650%	60,000.00	52,823.75	112,823.75	165,647.50
3/2/2016			49,928.75	49,928.75	
9/2/2016	9.650%	65,000.00	49,928.75	114,928.75	164,857.50
3/2/2017			46,792.50	46,792.50	
9/2/2017	9.650%	70,000.00	46,792.50	116,792.50	163,585.00
3/2/2018			43,415.00	43,415.00	
9/2/2018	9.650%	80,000.00	43,415.00	123,415.00	166,830.00
3/2/2019			39,555.00	39,555.00	
9/2/2019	9.650%	85,000.00	39,555.00	124,555.00	164,110.00
3/2/2020			35,453.75	35,453.75	
9/2/2020	9.650%	95,000.00	35,453.75	130,453.75	165,907.50
3/2/2021			30,870.00	30,870.00	
9/2/2021	9.800%	105,000.00	30,870.00	135,870.00	166,740.00
3/2/2022			25,725.00	25,725.00	
9/2/2022	9.800%	115,000.00	25,725.00	140,725.00	166,450.00
3/2/2023			20,090.00	20,090.00	
9/2/2023	9.800%	125,000.00	20,090.00	145,090.00	165,180.00
3/2/2024			13,965.00	13,965.00	
9/2/2024	9.800%	135,000.00	13,965.00	148,965.00	162,930.00
3/2/2025			7,350.00	7,350.00	
9/2/2025	9.800%	150,000.00	7,350.00	157,350.00	164,700.00
Totals		\$1,460,000.00	\$2,010,872.50	\$3,470,872.50	\$3,470,872.50

CITY OF MORGAN HILL
Assessment District No. 2000-1 (Madrone Business Park)
Limited Obligation Refunding Improvement Bonds, Series 2005

Series A - Refunded Bonds Actual Debt Service Schedule net of all Bondcalls

Payment Date	Interest Rate	Principal	Interest	Semi-Annual Payment	Total
3/2/2005			\$289,527.50	\$289,527.50	
9/2/2005	5.650%	\$210,000.00	289,527.50	499,527.50	\$789,055.00
3/2/2006			283,595.00	283,595.00	
9/2/2006	5.750%	220,000.00	283,595.00	503,595.00	787,190.00
3/2/2007			277,270.00	277,270.00	
9/2/2007	5.800%	235,000.00	277,270.00	512,270.00	789,540.00
3/2/2008			270,455.00	270,455.00	
9/2/2008	5.900%	245,000.00	270,455.00	515,455.00	785,910.00
3/2/2009			263,227.50	263,227.50	
9/2/2009	6.000%	255,000.00	263,227.50	518,227.50	781,455.00
3/2/2010			255,577.50	255,577.50	
9/2/2010	6.100%	275,000.00	255,577.50	530,577.50	786,155.00
3/2/2011			247,190.00	247,190.00	
9/2/2011	6.200%	290,000.00	247,190.00	537,190.00	784,380.00
3/2/2012			238,200.00	238,200.00	
9/2/2012	6.300%	310,000.00	238,200.00	548,200.00	786,400.00
3/2/2013			228,435.00	228,435.00	
9/2/2013	6.400%	330,000.00	228,435.00	558,435.00	786,870.00
3/2/2014			217,875.00	217,875.00	
9/2/2014	6.500%	350,000.00	217,875.00	567,875.00	785,750.00
3/2/2015			206,500.00	206,500.00	
9/2/2015	7.000%	375,000.00	206,500.00	581,500.00	788,000.00
3/2/2016			193,375.00	193,375.00	
9/2/2016	7.000%	400,000.00	193,375.00	593,375.00	786,750.00
3/2/2017			179,375.00	179,375.00	
9/2/2017	7.000%	425,000.00	179,375.00	604,375.00	783,750.00
3/2/2018			164,500.00	164,500.00	
9/2/2018	7.000%	460,000.00	164,500.00	624,500.00	789,000.00
3/2/2019			148,400.00	148,400.00	
9/2/2019	7.000%	490,000.00	148,400.00	638,400.00	786,800.00
3/2/2020			131,250.00	131,250.00	
9/2/2020	7.000%	525,000.00	131,250.00	656,250.00	787,500.00
3/2/2021			112,875.00	112,875.00	
9/2/2021	7.000%	560,000.00	112,875.00	672,875.00	785,750.00
3/2/2022			93,275.00	93,275.00	
9/2/2022	7.000%	600,000.00	93,275.00	693,275.00	786,550.00
3/2/2023			72,275.00	72,275.00	
9/2/2023	7.000%	645,000.00	72,275.00	717,275.00	789,550.00
3/2/2024			49,700.00	49,700.00	
9/2/2024	7.000%	685,000.00	49,700.00	734,700.00	784,400.00
3/2/2025			25,725.00	25,725.00	
9/2/2025	7.000%	735,000.00	25,725.00	760,725.00	786,450.00
Totals		\$8,620,000.00	\$7,897,205.00	\$16,517,205.00	\$16,517,205.00

CITY OF MORGAN HILL
Assessment District No. 2000-1 (Madrone Business Park)
Limited Obligation Refunding Improvement Bonds, Series 2005

Series B - Refunded Bonds Actual Debt Service Schedule net of all Bondcalls

Payment Date	Interest Rate	Principal	Interest	Semi-Annual Payment	Total
3/2/2005			\$69,600.00	\$69,600.00	
9/2/2005	9.400%	\$25,000.00	69,600.00	94,600.00	\$164,200.00
3/2/2006			68,425.00	68,425.00	
9/2/2006	9.400%	25,000.00	68,425.00	93,425.00	161,850.00
3/2/2007			67,250.00	67,250.00	
9/2/2007	9.400%	30,000.00	67,250.00	97,250.00	164,500.00
3/2/2008			65,840.00	65,840.00	
9/2/2008	9.400%	30,000.00	65,840.00	95,840.00	161,680.00
3/2/2009			64,430.00	64,430.00	
9/2/2009	9.400%	35,000.00	64,430.00	99,430.00	163,860.00
3/2/2010			62,785.00	62,785.00	
9/2/2010	9.400%	40,000.00	62,785.00	102,785.00	165,570.00
3/2/2011			60,905.00	60,905.00	
9/2/2011	9.400%	40,000.00	60,905.00	100,905.00	161,810.00
3/2/2012			59,025.00	59,025.00	
9/2/2012	9.400%	45,000.00	59,025.00	104,025.00	163,050.00
3/2/2013			56,910.00	56,910.00	
9/2/2013	9.650%	50,000.00	56,910.00	106,910.00	163,820.00
3/2/2014			54,497.50	54,497.50	
9/2/2014	9.650%	55,000.00	54,497.50	109,497.50	163,995.00
3/2/2015			51,843.75	51,843.75	
9/2/2015	9.650%	60,000.00	51,843.75	111,843.75	163,687.50
3/2/2016			48,948.75	48,948.75	
9/2/2016	9.650%	65,000.00	48,948.75	113,948.75	162,897.50
3/2/2017			45,812.50	45,812.50	
9/2/2017	9.650%	70,000.00	45,812.50	115,812.50	161,625.00
3/2/2018			42,435.00	42,435.00	
9/2/2018	9.650%	80,000.00	42,435.00	122,435.00	164,870.00
3/2/2019			38,575.00	38,575.00	
9/2/2019	9.650%	85,000.00	38,575.00	123,575.00	162,150.00
3/2/2020			34,473.75	34,473.75	
9/2/2020	9.650%	95,000.00	34,473.75	129,473.75	163,947.50
3/2/2021			29,890.00	29,890.00	
9/2/2021	9.800%	105,000.00	29,890.00	134,890.00	164,780.00
3/2/2022			24,745.00	24,745.00	
9/2/2022	9.800%	110,000.00	24,745.00	134,745.00	159,490.00
3/2/2023			19,355.00	19,355.00	
9/2/2023	9.800%	120,000.00	19,355.00	139,355.00	158,710.00
3/2/2024			13,475.00	13,475.00	
9/2/2024	9.800%	130,000.00	13,475.00	143,475.00	156,950.00
3/2/2025			7,105.00	7,105.00	
9/2/2025	9.800%	145,000.00	7,105.00	152,105.00	159,210.00
Totals		\$1,440,000.00	\$1,972,652.50	\$3,412,652.50	\$3,412,652.50

CITY OF MORGAN HILL
Assessment District No. 2000-1 (Madrone Business Park)
Limited Obligation Refunding Improvement Bonds, Series 2005

Series A - Refunded Parcel's Aggregate Amortization Schedule

Payment Date	Interest Rate	Principal	Interest	Semi-Annual Payment	Total
3/2/2005			\$292,887.50	\$292,887.50	
9/2/2005	5.650%	\$210,000.00	292,887.50	502,887.50	\$795,775.00
3/2/2006			286,955.00	286,955.00	
9/2/2006	5.750%	220,000.00	286,955.00	506,955.00	793,910.00
3/2/2007			280,630.00	280,630.00	
9/2/2007	5.800%	235,000.00	280,630.00	515,630.00	796,260.00
3/2/2008			273,815.00	273,815.00	
9/2/2008	5.900%	250,000.00	273,815.00	523,815.00	797,630.00
3/2/2009			266,440.00	266,440.00	
9/2/2009	6.000%	260,000.00	266,440.00	526,440.00	792,880.00
3/2/2010			258,640.00	258,640.00	
9/2/2010	6.100%	280,000.00	258,640.00	538,640.00	797,280.00
3/2/2011			250,100.00	250,100.00	
9/2/2011	6.200%	295,000.00	250,100.00	545,100.00	795,200.00
3/2/2012			240,955.00	240,955.00	
9/2/2012	6.300%	315,000.00	240,955.00	555,955.00	796,910.00
3/2/2013			231,032.50	231,032.50	
9/2/2013	6.400%	335,000.00	231,032.50	566,032.50	797,065.00
3/2/2014			220,312.50	220,312.50	
9/2/2014	6.500%	355,000.00	220,312.50	575,312.50	795,625.00
3/2/2015			208,775.00	208,775.00	
9/2/2015	7.000%	380,000.00	208,775.00	588,775.00	797,550.00
3/2/2016			195,475.00	195,475.00	
9/2/2016	7.000%	405,000.00	195,475.00	600,475.00	795,950.00
3/2/2017			181,300.00	181,300.00	
9/2/2017	7.000%	430,000.00	181,300.00	611,300.00	792,600.00
3/2/2018			166,250.00	166,250.00	
9/2/2018	7.000%	465,000.00	166,250.00	631,250.00	797,500.00
3/2/2019			149,975.00	149,975.00	
9/2/2019	7.000%	495,000.00	149,975.00	644,975.00	794,950.00
3/2/2020			132,650.00	132,650.00	
9/2/2020	7.000%	530,000.00	132,650.00	662,650.00	795,300.00
3/2/2021			114,100.00	114,100.00	
9/2/2021	7.000%	565,000.00	114,100.00	679,100.00	793,200.00
3/2/2022			94,325.00	94,325.00	
9/2/2022	7.000%	605,000.00	94,325.00	699,325.00	793,650.00
3/2/2023			73,150.00	73,150.00	
9/2/2023	7.000%	650,000.00	73,150.00	723,150.00	796,300.00
3/2/2024			50,400.00	50,400.00	
9/2/2024	7.000%	695,000.00	50,400.00	745,400.00	795,800.00
3/2/2025			26,075.00	26,075.00	
9/2/2025	7.000%	745,000.00	26,075.00	771,075.00	797,150.00
Totals		\$8,720,000.00	\$7,988,485.00	\$16,708,485.00	\$16,708,485.00

CITY OF MORGAN HILL
Assessment District No. 2000-1 (Madrone Business Park)
Limited Obligation Refunding Improvement Bonds, Series 2005

Series B - Refunded Parcel's Aggregate Amortization Schedule

Payment Date	Interest Rate	Principal	Interest	Semi-Annual Payment	Total
3/2/2005			\$70,580.00	\$70,580.00	
9/2/2005	9.400%	\$25,000.00	70,580.00	95,580.00	\$166,160.00
3/2/2006			69,405.00	69,405.00	
9/2/2006	9.400%	25,000.00	69,405.00	94,405.00	163,810.00
3/2/2007			68,230.00	68,230.00	
9/2/2007	9.400%	30,000.00	68,230.00	98,230.00	166,460.00
3/2/2008			66,820.00	66,820.00	
9/2/2008	9.400%	30,000.00	66,820.00	96,820.00	163,640.00
3/2/2009			65,410.00	65,410.00	
9/2/2009	9.400%	35,000.00	65,410.00	100,410.00	165,820.00
3/2/2010			63,765.00	63,765.00	
9/2/2010	9.400%	40,000.00	63,765.00	103,765.00	167,530.00
3/2/2011			61,885.00	61,885.00	
9/2/2011	9.400%	40,000.00	61,885.00	101,885.00	163,770.00
3/2/2012			60,005.00	60,005.00	
9/2/2012	9.400%	45,000.00	60,005.00	105,005.00	165,010.00
3/2/2013			57,890.00	57,890.00	
9/2/2013	9.650%	50,000.00	57,890.00	107,890.00	165,780.00
3/2/2014			55,477.50	55,477.50	
9/2/2014	9.650%	55,000.00	55,477.50	110,477.50	165,955.00
3/2/2015			52,823.75	52,823.75	
9/2/2015	9.650%	60,000.00	52,823.75	112,823.75	165,647.50
3/2/2016			49,928.75	49,928.75	
9/2/2016	9.650%	65,000.00	49,928.75	114,928.75	164,857.50
3/2/2017			46,792.50	46,792.50	
9/2/2017	9.650%	70,000.00	46,792.50	116,792.50	163,585.00
3/2/2018			43,415.00	43,415.00	
9/2/2018	9.650%	80,000.00	43,415.00	123,415.00	166,830.00
3/2/2019			39,555.00	39,555.00	
9/2/2019	9.650%	85,000.00	39,555.00	124,555.00	164,110.00
3/2/2020			35,453.75	35,453.75	
9/2/2020	9.650%	95,000.00	35,453.75	130,453.75	165,907.50
3/2/2021			30,870.00	30,870.00	
9/2/2021	9.800%	105,000.00	30,870.00	135,870.00	166,740.00
3/2/2022			25,725.00	25,725.00	
9/2/2022	9.800%	115,000.00	25,725.00	140,725.00	166,450.00
3/2/2023			20,090.00	20,090.00	
9/2/2023	9.800%	125,000.00	20,090.00	145,090.00	165,180.00
3/2/2024			13,965.00	13,965.00	
9/2/2024	9.800%	135,000.00	13,965.00	148,965.00	162,930.00
3/2/2025			7,350.00	7,350.00	
9/2/2025	9.800%	150,000.00	7,350.00	157,350.00	164,700.00
Totals		\$1,460,000.00	\$2,010,872.50	\$3,470,872.50	\$3,470,872.50

CITY OF MORGAN HILL
Assessment District No. 2000-1 (Madrone Business Park)
Limited Obligation Refunding Improvement Bonds, Series 2005

Combined Series A & B - Refunded Parcel's Aggregate Amortization Schedule

Payment Date	Interest Rate	Principal	Interest	Semi-Annual Payment	Total
3/2/2005			\$363,467.50	\$363,467.50	
9/2/2005		\$235,000.00	363,467.50	598,467.50	\$961,935.00
3/2/2006			356,360.00	356,360.00	
9/2/2006		245,000.00	356,360.00	601,360.00	957,720.00
3/2/2007			348,860.00	348,860.00	
9/2/2007		265,000.00	348,860.00	613,860.00	962,720.00
3/2/2008			340,635.00	340,635.00	
9/2/2008		280,000.00	340,635.00	620,635.00	961,270.00
3/2/2009			331,850.00	331,850.00	
9/2/2009		295,000.00	331,850.00	626,850.00	958,700.00
3/2/2010			322,405.00	322,405.00	
9/2/2010		320,000.00	322,405.00	642,405.00	964,810.00
3/2/2011			311,985.00	311,985.00	
9/2/2011		335,000.00	311,985.00	646,985.00	958,970.00
3/2/2012			300,960.00	300,960.00	
9/2/2012		360,000.00	300,960.00	660,960.00	961,920.00
3/2/2013			288,922.50	288,922.50	
9/2/2013		385,000.00	288,922.50	673,922.50	962,845.00
3/2/2014			275,790.00	275,790.00	
9/2/2014		410,000.00	275,790.00	685,790.00	961,580.00
3/2/2015			261,598.75	261,598.75	
9/2/2015		440,000.00	261,598.75	701,598.75	963,197.50
3/2/2016			245,403.75	245,403.75	
9/2/2016		470,000.00	245,403.75	715,403.75	960,807.50
3/2/2017			228,092.50	228,092.50	
9/2/2017		500,000.00	228,092.50	728,092.50	956,185.00
3/2/2018			209,665.00	209,665.00	
9/2/2018		545,000.00	209,665.00	754,665.00	964,330.00
3/2/2019			189,530.00	189,530.00	
9/2/2019		580,000.00	189,530.00	769,530.00	959,060.00
3/2/2020			168,103.75	168,103.75	
9/2/2020		625,000.00	168,103.75	793,103.75	961,207.50
3/2/2021			144,970.00	144,970.00	
9/2/2021		670,000.00	144,970.00	814,970.00	959,940.00
3/2/2022			120,050.00	120,050.00	
9/2/2022		720,000.00	120,050.00	840,050.00	960,100.00
3/2/2023			93,240.00	93,240.00	
9/2/2023		775,000.00	93,240.00	868,240.00	961,480.00
3/2/2024			64,365.00	64,365.00	
9/2/2024		830,000.00	64,365.00	894,365.00	958,730.00
3/2/2025			33,425.00	33,425.00	
9/2/2025		895,000.00	33,425.00	928,425.00	961,850.00
Totals		\$10,180,000.00	\$9,999,357.50	\$20,179,357.50	\$20,179,357.50

CITY OF MORGAN HILL
Assessment District No. 2000-1 (Madrone Business Park)
Limited Obligation Refunding Improvement Bonds, Series 2005

Refunding Bonds Original Debt Service Schedule

Payment Date	Interest Rate	Principal	Interest	Semi-Annual Payment	Total
3/2/2005			\$1,961.11	\$1,961.11	
9/2/2005	7.021%	\$598,000.00	352,980.78	950,980.78	\$952,941.89
3/2/2006			331,987.99	331,987.99	
9/2/2006	7.021%	226,000.00	331,987.99	557,987.99	889,975.97
3/2/2007			324,054.26	324,054.26	
9/2/2007	7.021%	251,000.00	324,054.26	575,054.26	899,108.51
3/2/2008			315,242.90	315,242.90	
9/2/2008	7.021%	262,000.00	315,242.90	577,242.90	892,485.80
3/2/2009			306,045.39	306,045.39	
9/2/2009	7.021%	281,000.00	306,045.39	587,045.39	893,090.78
3/2/2010			296,180.89	296,180.89	
9/2/2010	7.021%	306,000.00	296,180.89	602,180.89	898,361.77
3/2/2011			285,438.76	285,438.76	
9/2/2011	7.021%	320,000.00	285,438.76	605,438.76	890,877.51
3/2/2012			274,205.16	274,205.16	
9/2/2012	7.021%	344,000.00	274,205.16	618,205.16	892,410.31
3/2/2013			262,129.04	262,129.04	
9/2/2013	7.021%	374,000.00	262,129.04	636,129.04	898,258.07
3/2/2014			248,999.77	248,999.77	
9/2/2014	7.021%	398,000.00	248,999.77	646,999.77	895,999.53
3/2/2015			235,027.98	235,027.98	
9/2/2015	7.021%	423,000.00	235,027.98	658,027.98	893,055.95
3/2/2016			220,178.56	220,178.56	
9/2/2016	7.021%	453,000.00	220,178.56	673,178.56	893,357.12
3/2/2017			204,276.00	204,276.00	
9/2/2017	7.021%	483,000.00	204,276.00	687,276.00	891,551.99
3/2/2018			187,320.28	187,320.28	
9/2/2018	7.021%	523,000.00	187,320.28	710,320.28	897,640.56
3/2/2019			168,960.37	168,960.37	
9/2/2019	7.021%	553,000.00	168,960.37	721,960.37	890,920.73
3/2/2020			149,547.30	149,547.30	
9/2/2020	7.021%	598,000.00	149,547.30	747,547.30	897,094.60
3/2/2021			128,554.51	128,554.51	
9/2/2021	7.021%	638,000.00	128,554.51	766,554.51	895,109.02
3/2/2022			106,157.52	106,157.52	
9/2/2022	7.021%	679,000.00	106,157.52	785,157.52	891,315.04
3/2/2023			82,321.23	82,321.23	
9/2/2023	7.021%	733,000.00	82,321.23	815,321.23	897,642.45
3/2/2024			56,589.26	56,589.26	
9/2/2024	7.021%	778,000.00	56,589.26	834,589.26	891,178.52
3/2/2025			29,277.57	29,277.57	
9/2/2025	7.021%	834,000.00	29,277.57	863,277.57	892,555.14
Totals		\$10,055,000.00	\$8,779,931.26	\$18,834,931.26	\$18,834,931.26

CITY OF MORGAN HILL
Assessment District No. 2000-1 (Madrone Business Park)
Limited Obligation Refunding Improvement Bonds, Series 2005

Comparison of Refunded Parcel's Aggregate Amortization Schedule and Refunding Bonds

Payment Date	Refunded Parcel Aggregate		Refunding Bonds		Savings		
	Principal	Interest	Principal	Interest	Principal	Interest	Annual Total
3/2/2005		\$363,467.50		\$1,961.11		\$361,506.39	
9/2/2005	\$235,000.00	363,467.50	\$598,000.00	352,980.78	(\$363,000.00)	10,486.73	\$8,993.11
3/2/2006		356,360.00		331,987.99		24,372.02	
9/2/2006	245,000.00	356,360.00	226,000.00	331,987.99	19,000.00	24,372.02	67,744.03
3/2/2007		348,860.00		324,054.26		24,805.75	
9/2/2007	265,000.00	348,860.00	251,000.00	324,054.26	14,000.00	24,805.75	63,611.49
3/2/2008		340,635.00		315,242.90		25,392.10	
9/2/2008	280,000.00	340,635.00	262,000.00	315,242.90	18,000.00	25,392.10	68,784.20
3/2/2009		331,850.00		306,045.39		25,804.61	
9/2/2009	295,000.00	331,850.00	281,000.00	306,045.39	14,000.00	25,804.61	65,609.22
3/2/2010		322,405.00		296,180.89		26,224.12	
9/2/2010	320,000.00	322,405.00	306,000.00	296,180.89	14,000.00	26,224.12	66,448.23
3/2/2011		311,985.00		285,438.76		26,546.25	
9/2/2011	335,000.00	311,985.00	320,000.00	285,438.76	15,000.00	26,546.25	68,092.49
3/2/2012		300,960.00		274,205.16		26,754.85	
9/2/2012	360,000.00	300,960.00	344,000.00	274,205.16	16,000.00	26,754.85	69,509.69
3/2/2013		288,922.50		262,129.04		26,793.47	
9/2/2013	385,000.00	288,922.50	374,000.00	262,129.04	11,000.00	26,793.47	64,586.93
3/2/2014		275,790.00		248,999.77		26,790.24	
9/2/2014	410,000.00	275,790.00	398,000.00	248,999.77	12,000.00	26,790.24	65,580.47
3/2/2015		261,598.75		235,027.98		26,570.78	
9/2/2015	440,000.00	261,598.75	423,000.00	235,027.98	17,000.00	26,570.78	70,141.55
3/2/2016		245,403.75		220,178.56		25,225.19	
9/2/2016	470,000.00	245,403.75	453,000.00	220,178.56	17,000.00	25,225.19	67,450.38
3/2/2017		228,092.50		204,276.00		23,816.51	
9/2/2017	500,000.00	228,092.50	483,000.00	204,276.00	17,000.00	23,816.51	64,633.01
3/2/2018		209,665.00		187,320.28		22,344.72	
9/2/2018	545,000.00	209,665.00	523,000.00	187,320.28	22,000.00	22,344.72	66,689.44
3/2/2019		189,530.00		168,960.37		20,569.64	
9/2/2019	580,000.00	189,530.00	553,000.00	168,960.37	27,000.00	20,569.64	68,139.27
3/2/2020		168,103.75		149,547.30		18,556.45	
9/2/2020	625,000.00	168,103.75	598,000.00	149,547.30	27,000.00	18,556.45	64,112.90
3/2/2021		144,970.00		128,554.51		16,415.49	
9/2/2021	670,000.00	144,970.00	638,000.00	128,554.51	32,000.00	16,415.49	64,830.98
3/2/2022		120,050.00		106,157.52		13,892.48	
9/2/2022	720,000.00	120,050.00	679,000.00	106,157.52	41,000.00	13,892.48	68,784.96
3/2/2023		93,240.00		82,321.23		10,918.78	
9/2/2023	775,000.00	93,240.00	733,000.00	82,321.23	42,000.00	10,918.78	63,837.55
3/2/2024		64,365.00		56,589.26		7,775.74	
9/2/2024	830,000.00	64,365.00	778,000.00	56,589.26	52,000.00	7,775.74	67,551.48
3/2/2025		33,425.00		29,277.57		4,147.43	
9/2/2025	895,000.00	33,425.00	834,000.00	29,277.57	61,000.00	4,147.43	69,294.86
Totals	\$10,180,000.00	\$9,635,890.00	\$10,055,000.00	\$8,777,970.15	\$125,000.00	\$857,919.86	\$1,344,426.25

CITY OF MORGAN HILL
Assessment District No. 2000-1 (Madrone Business Park)
Limited Obligation Refunding Improvement Bonds, Series 2005

94-1E - Comparison of the Refunded Parcel's Amortization with the Refunding Parcel's Amortization

APN: 726-33-020

Reassessment ID: 1

Payment Date	Refunded Amortization		Refunding Amortization		Savings		Annual Total
	Principal	Interest	Principal	Interest	Principal	Interest	
3/2/2005		\$11,188.86		\$60.37		\$11,128.49	
9/2/2005	\$7,234.16	11,188.86	\$18,408.63	10,866.04	(\$11,174.47)	322.82	\$276.84
3/2/2006		10,970.07		10,219.81		750.26	
9/2/2006	7,542.00	10,970.07	6,957.11	10,219.81	584.89	750.26	2,085.41
3/2/2007		10,739.19		9,975.58		763.61	
9/2/2007	8,157.67	10,739.19	7,726.70	9,975.58	430.97	763.61	1,958.19
3/2/2008		10,485.99		9,704.33		781.66	
9/2/2008	8,619.42	10,485.99	8,065.32	9,704.33	554.10	781.66	2,117.42
3/2/2009		10,215.56		9,421.20		794.36	
9/2/2009	9,081.18	10,215.56	8,650.21	9,421.20	430.97	794.36	2,019.69
3/2/2010		9,924.81		9,117.53		807.28	
9/2/2010	9,850.77	9,924.81	9,419.80	9,117.53	430.97	807.28	2,045.53
3/2/2011		9,604.04		8,786.85		817.19	
9/2/2011	10,312.53	9,604.04	9,850.77	8,786.85	461.76	817.19	2,096.14
3/2/2012		9,264.65		8,441.04		823.61	
9/2/2012	11,082.12	9,264.65	10,589.58	8,441.04	492.54	823.61	2,139.76
3/2/2013		8,894.09		8,069.29		824.80	
9/2/2013	11,851.71	8,894.09	11,513.09	8,069.29	338.62	824.80	1,988.22
3/2/2014		8,489.83		7,665.12		824.71	
9/2/2014	12,621.30	8,489.83	12,251.90	7,665.12	369.40	824.71	2,018.82
3/2/2015		8,052.97		7,235.02		817.95	
9/2/2015	13,544.81	8,052.97	13,021.49	7,235.02	523.32	817.95	2,159.22
3/2/2016		7,554.43		6,777.90		776.53	
9/2/2016	14,468.32	7,554.43	13,945.00	6,777.90	523.32	776.53	2,076.38
3/2/2017		7,021.52		6,288.36		733.16	
9/2/2017	15,391.83	7,021.52	14,868.51	6,288.36	523.32	733.16	1,989.64
3/2/2018		6,454.26		5,766.40		687.86	
9/2/2018	16,777.09	6,454.26	16,099.85	5,766.40	677.24	687.86	2,052.96
3/2/2019		5,834.43		5,201.22		633.21	
9/2/2019	17,854.52	5,834.43	17,023.36	5,201.22	831.16	633.21	2,097.58
3/2/2020		5,174.85		4,603.61		571.24	
9/2/2020	19,239.79	5,174.85	18,408.63	4,603.61	831.16	571.24	1,973.64
3/2/2021		4,462.71		3,957.38		505.33	
9/2/2021	20,625.05	4,462.71	19,639.98	3,957.38	985.07	505.33	1,995.73
3/2/2022		3,695.58		3,267.92		427.66	
9/2/2022	22,164.24	3,695.58	20,902.11	3,267.92	1,262.13	427.66	2,117.45
3/2/2023		2,870.27		2,534.15		336.12	
9/2/2023	23,857.34	2,870.27	22,564.42	2,534.15	1,292.92	336.12	1,965.16
3/2/2024		1,981.39		1,742.02		239.37	
9/2/2024	25,550.44	1,981.39	23,949.69	1,742.02	1,600.75	239.37	2,079.49
3/2/2025		1,028.94		901.27		127.67	
9/2/2025	27,551.38	1,028.94	25,673.57	901.27	1,877.81	127.67	2,133.15
Totals	\$313,377.67	\$296,628.02	309,529.70	\$270,218.04	\$3,847.95	\$26,409.98	\$41,386.42

CITY OF MORGAN HILL
Assessment District No. 2000-1 (Madrone Business Park)
Limited Obligation Refunding Improvement Bonds, Series 2005

94-1E - Comparison of the Refunded Parcel's Amortization with the Refunding Parcel's Amortization

APN: 726-33-021

Reassessment ID: 2

Payment Date	Refunded Amortization		Refunding Amortization		Savings		Annual Total
	Principal	Interest	Principal	Interest	Principal	Interest	
3/2/2005		\$10,954.78		\$59.11		\$10,895.67	
9/2/2005	\$7,082.82	10,954.78	\$18,023.51	10,638.72	(\$10,940.69)	316.06	\$271.04
3/2/2006		10,740.57		10,006.00		734.57	
9/2/2006	7,384.21	10,740.57	6,811.56	10,006.00	572.65	734.57	2,041.79
3/2/2007		10,514.52		9,766.88		747.64	
9/2/2007	7,987.01	10,514.52	7,565.05	9,766.88	421.96	747.64	1,917.24
3/2/2008		10,266.62		9,501.31		765.31	
9/2/2008	8,439.10	10,266.62	7,896.59	9,501.31	542.51	765.31	2,073.13
3/2/2009		10,001.84		9,224.10		777.74	
9/2/2009	8,891.20	10,001.84	8,469.24	9,224.10	421.96	777.74	1,977.44
3/2/2010		9,717.17		8,926.79		790.38	
9/2/2010	9,644.69	9,717.17	9,222.73	8,926.79	421.96	790.38	2,002.72
3/2/2011		9,403.12		8,603.02		800.10	
9/2/2011	10,096.78	9,403.12	9,644.69	8,603.02	452.09	800.10	2,052.29
3/2/2012		9,070.83		8,264.45		806.38	
9/2/2012	10,850.27	9,070.83	10,368.04	8,264.45	482.23	806.38	2,094.99
3/2/2013		8,708.02		7,900.48		807.54	
9/2/2013	11,603.77	8,708.02	11,272.23	7,900.48	331.54	807.54	1,946.62
3/2/2014		8,312.21		7,504.77		807.44	
9/2/2014	12,357.26	8,312.21	11,995.58	7,504.77	361.68	807.44	1,976.56
3/2/2015		7,884.49		7,083.66		800.83	
9/2/2015	13,261.45	7,884.49	12,749.07	7,083.66	512.38	800.83	2,114.04
3/2/2016		7,396.38		6,636.10		760.28	
9/2/2016	14,165.64	7,396.38	13,653.26	6,636.10	512.38	760.28	2,032.94
3/2/2017		6,874.63		6,156.81		717.82	
9/2/2017	15,069.83	6,874.63	14,557.45	6,156.81	512.38	717.82	1,948.02
3/2/2018		6,319.23		5,645.77		673.46	
9/2/2018	16,426.11	6,319.23	15,763.04	5,645.77	663.07	673.46	2,009.99
3/2/2019		5,712.37		5,092.41		619.96	
9/2/2019	17,481.00	5,712.37	16,667.23	5,092.41	813.77	619.96	2,053.69
3/2/2020		5,066.59		4,507.30		559.29	
9/2/2020	18,837.28	5,066.59	18,023.51	4,507.30	813.77	559.29	1,932.35
3/2/2021		4,369.35		3,874.59		494.76	
9/2/2021	20,193.57	4,369.35	19,229.10	3,874.59	964.47	494.76	1,953.99
3/2/2022		3,618.26		3,199.55		418.71	
9/2/2022	21,700.55	3,618.26	20,464.82	3,199.55	1,235.73	418.71	2,073.15
3/2/2023		2,810.22		2,481.13		329.09	
9/2/2023	23,358.23	2,810.22	22,092.36	2,481.13	1,265.87	329.09	1,924.05
3/2/2024		1,939.94		1,705.58		234.36	
9/2/2024	25,015.91	1,939.94	23,448.65	1,705.58	1,567.26	234.36	2,035.98
3/2/2025		1,007.42		882.42		125.00	
9/2/2025	26,974.99	1,007.42	25,136.47	882.42	1,838.52	125.00	2,088.52
Totals	\$306,821.67	\$290,422.34	303,054.18	\$264,564.96	\$3,767.49	\$25,857.38	\$40,520.54

CITY OF MORGAN HILL
Assessment District No. 2000-1 (Madrone Business Park)
Limited Obligation Refunding Improvement Bonds, Series 2005

94-1E - Comparison of the Refunded Parcel's Amortization with the Refunding Parcel's Amortization

APN: 726-33-022

Reassessment ID: 3

Payment Date	Refunded Amortization		Refunding Amortization		Savings		Annual Total
	Principal	Interest	Principal	Interest	Principal	Interest	
3/2/2005		\$6,788.22		\$36.63		\$6,751.59	
9/2/2005	\$4,388.93	6,788.22	\$11,168.41	6,592.37	(\$6,779.48)	195.85	\$167.96
3/2/2006		6,655.48		6,200.30		455.18	
9/2/2006	4,575.69	6,655.48	4,220.84	6,200.30	354.85	455.18	1,265.21
3/2/2007		6,515.41		6,052.13		463.28	
9/2/2007	4,949.21	6,515.41	4,687.75	6,052.13	261.46	463.28	1,188.02
3/2/2008		6,361.79		5,887.56		474.23	
9/2/2008	5,229.36	6,361.79	4,893.19	5,887.56	336.17	474.23	1,284.63
3/2/2009		6,197.72		5,715.79		481.93	
9/2/2009	5,509.50	6,197.72	5,248.03	5,715.79	261.47	481.93	1,225.33
3/2/2010		6,021.33		5,531.56		489.77	
9/2/2010	5,976.41	6,021.33	5,714.94	5,531.56	261.47	489.77	1,241.01
3/2/2011		5,826.72		5,330.93		495.79	
9/2/2011	6,256.55	5,826.72	5,976.41	5,330.93	280.14	495.79	1,271.72
3/2/2012		5,620.81		5,121.13		499.68	
9/2/2012	6,723.46	5,620.81	6,424.64	5,121.13	298.82	499.68	1,298.18
3/2/2013		5,396.00		4,895.60		500.40	
9/2/2013	7,190.37	5,396.00	6,984.93	4,895.60	205.44	500.40	1,206.24
3/2/2014		5,150.73		4,650.39		500.34	
9/2/2014	7,657.27	5,150.73	7,433.16	4,650.39	224.11	500.34	1,224.79
3/2/2015		4,885.69		4,389.45		496.24	
9/2/2015	8,217.56	4,885.69	7,900.07	4,389.45	317.49	496.24	1,309.97
3/2/2016		4,583.23		4,112.12		471.11	
9/2/2016	8,777.85	4,583.23	8,460.35	4,112.12	317.50	471.11	1,259.72
3/2/2017		4,259.92		3,815.12		444.80	
9/2/2017	9,338.14	4,259.92	9,020.64	3,815.12	317.50	444.80	1,207.10
3/2/2018		3,915.76		3,498.45		417.31	
9/2/2018	10,178.57	3,915.76	9,767.69	3,498.45	410.88	417.31	1,245.50
3/2/2019		3,539.72		3,155.55		384.17	
9/2/2019	10,832.24	3,539.72	10,327.98	3,155.55	504.26	384.17	1,272.60
3/2/2020		3,139.55		2,792.99		346.56	
9/2/2020	11,672.67	3,139.55	11,168.41	2,792.99	504.26	346.56	1,197.38
3/2/2021		2,707.50		2,400.92		306.58	
9/2/2021	12,513.11	2,707.50	11,915.47	2,400.92	597.64	306.58	1,210.80
3/2/2022		2,242.09		1,982.63		259.46	
9/2/2022	13,446.92	2,242.09	12,681.19	1,982.63	765.73	259.46	1,284.65
3/2/2023		1,741.38		1,537.45		203.93	
9/2/2023	14,474.12	1,741.38	13,689.71	1,537.45	784.41	203.93	1,192.27
3/2/2024		1,202.10		1,056.88		145.22	
9/2/2024	15,501.31	1,202.10	14,530.15	1,056.88	971.16	145.22	1,261.60
3/2/2025		624.25		546.80		77.45	
9/2/2025	16,715.27	624.25	15,576.02	546.80	1,139.25	77.45	1,294.15
Totals	\$190,124.51	\$179,962.58	187,789.99	\$163,939.87	\$2,334.53	\$16,022.71	\$25,108.83

CITY OF MORGAN HILL
Assessment District No. 2000-1 (Madrone Business Park)
Limited Obligation Refunding Improvement Bonds, Series 2005

94-1E - Comparison of the Refunded Parcel's Amortization with the Refunding Parcel's Amortization

APN: 726-33-023

Reassessment ID: 4

Payment Date	Refunded Amortization		Refunding Amortization		Savings		Annual Total
	Principal	Interest	Principal	Interest	Principal	Interest	
3/2/2005		\$4,775.16		\$25.76		\$4,749.40	
9/2/2005	\$3,087.38	4,775.16	\$7,856.40	4,637.39	(\$4,769.02)	137.77	\$118.15
3/2/2006		4,681.79		4,361.59		320.20	
9/2/2006	3,218.76	4,681.79	2,969.14	4,361.59	249.62	320.20	890.02
3/2/2007		4,583.25		4,257.36		325.89	
9/2/2007	3,481.52	4,583.25	3,297.59	4,257.36	183.93	325.89	835.71
3/2/2008		4,475.19		4,141.60		333.59	
9/2/2008	3,678.58	4,475.19	3,442.10	4,141.60	236.48	333.59	903.66
3/2/2009		4,359.78		4,020.76		339.02	
9/2/2009	3,875.65	4,359.78	3,691.72	4,020.76	183.93	339.02	861.97
3/2/2010		4,235.69		3,891.16		344.53	
9/2/2010	4,204.09	4,235.69	4,020.17	3,891.16	183.92	344.53	872.98
3/2/2011		4,098.80		3,750.04		348.76	
9/2/2011	4,401.16	4,098.80	4,204.09	3,750.04	197.07	348.76	894.59
3/2/2012		3,953.95		3,602.45		351.50	
9/2/2012	4,729.61	3,953.95	4,519.40	3,602.45	210.21	351.50	913.21
3/2/2013		3,795.80		3,443.80		352.00	
9/2/2013	5,058.05	3,795.80	4,913.54	3,443.80	144.51	352.00	848.51
3/2/2014		3,623.27		3,271.31		351.96	
9/2/2014	5,386.50	3,623.27	5,228.84	3,271.31	157.66	351.96	861.58
3/2/2015		3,436.83		3,087.75		349.08	
9/2/2015	5,780.63	3,436.83	5,557.29	3,087.75	223.34	349.08	921.50
3/2/2016		3,224.06		2,892.66		331.40	
9/2/2016	6,174.76	3,224.06	5,951.42	2,892.66	223.34	331.40	886.14
3/2/2017		2,996.63		2,683.74		312.89	
9/2/2017	6,568.90	2,996.63	6,345.56	2,683.74	223.34	312.89	849.12
3/2/2018		2,754.54		2,460.98		293.56	
9/2/2018	7,160.10	2,754.54	6,871.07	2,460.98	289.03	293.56	876.15
3/2/2019		2,490.01		2,219.77		270.24	
9/2/2019	7,619.92	2,490.01	7,265.20	2,219.77	354.72	270.24	895.20
3/2/2020		2,208.51		1,964.72		243.79	
9/2/2020	8,211.12	2,208.51	7,856.40	1,964.72	354.72	243.79	842.30
3/2/2021		1,904.59		1,688.92		215.67	
9/2/2021	8,802.32	1,904.59	8,381.91	1,688.92	420.41	215.67	851.75
3/2/2022		1,577.19		1,394.68		182.51	
9/2/2022	9,459.21	1,577.19	8,920.56	1,394.68	538.65	182.51	903.67
3/2/2023		1,224.97		1,081.52		143.45	
9/2/2023	10,181.79	1,224.97	9,630.00	1,081.52	551.79	143.45	838.69
3/2/2024		845.61		743.46		102.15	
9/2/2024	10,904.37	845.61	10,221.21	743.46	683.16	102.15	887.46
3/2/2025		439.13		384.64		54.49	
9/2/2025	11,758.33	439.13	10,956.92	384.64	801.41	54.49	910.39
Totals	\$133,742.75	\$126,594.34	132,100.54	\$115,323.21	\$1,642.22	\$11,271.13	\$17,662.75

CITY OF MORGAN HILL
Assessment District No. 2000-1 (Madrone Business Park)
Limited Obligation Refunding Improvement Bonds, Series 2005

94-1E - Comparison of the Refunded Parcel's Amortization with the Refunding Parcel's Amortization

APN: 726-33-024

Reassessment ID: 5

Payment Date	Refunded Amortization		Refunding Amortization		Savings		Annual Total
	Principal	Interest	Principal	Interest	Principal	Interest	
3/2/2005		\$6,928.67		\$37.38		\$6,891.29	
9/2/2005	\$4,479.73	6,928.67	\$11,399.49	6,728.76	(\$6,919.76)	199.91	\$171.44
3/2/2006		6,793.18		6,328.58		464.60	
9/2/2006	4,670.36	6,793.18	4,308.17	6,328.58	362.19	464.60	1,291.39
3/2/2007		6,650.21		6,177.34		472.87	
9/2/2007	5,051.61	6,650.21	4,784.73	6,177.34	266.88	472.87	1,212.62
3/2/2008		6,493.42		6,009.38		484.04	
9/2/2008	5,337.55	6,493.42	4,994.42	6,009.38	343.13	484.04	1,311.21
3/2/2009		6,325.95		5,834.05		491.90	
9/2/2009	5,623.49	6,325.95	5,356.61	5,834.05	266.88	491.90	1,250.68
3/2/2010		6,145.90		5,646.00		499.90	
9/2/2010	6,100.06	6,145.90	5,833.18	5,646.00	266.88	499.90	1,266.68
3/2/2011		5,947.27		5,441.23		506.04	
9/2/2011	6,386.00	5,947.27	6,100.06	5,441.23	285.94	506.04	1,298.02
3/2/2012		5,737.11		5,227.09		510.02	
9/2/2012	6,862.57	5,737.11	6,557.56	5,227.09	305.01	510.02	1,325.05
3/2/2013		5,507.64		4,996.88		510.76	
9/2/2013	7,339.13	5,507.64	7,129.44	4,996.88	209.69	510.76	1,231.21
3/2/2014		5,257.30		4,746.60		510.70	
9/2/2014	7,815.70	5,257.30	7,586.95	4,746.60	228.75	510.70	1,250.15
3/2/2015		4,986.77		4,480.26		506.51	
9/2/2015	8,387.58	4,986.77	8,063.52	4,480.26	324.06	506.51	1,337.08
3/2/2016		4,678.05		4,197.19		480.86	
9/2/2016	8,959.46	4,678.05	8,635.40	4,197.19	324.06	480.86	1,285.78
3/2/2017		4,348.06		3,894.05		454.01	
9/2/2017	9,531.34	4,348.06	9,207.28	3,894.05	324.06	454.01	1,232.08
3/2/2018		3,996.78		3,570.83		425.95	
9/2/2018	10,389.16	3,996.78	9,969.78	3,570.83	419.38	425.95	1,271.28
3/2/2019		3,612.95		3,220.84		392.11	
9/2/2019	11,056.36	3,612.95	10,541.66	3,220.84	514.70	392.11	1,298.92
3/2/2020		3,204.51		2,850.77		353.74	
9/2/2020	11,914.18	3,204.51	11,399.49	2,850.77	514.69	353.74	1,222.17
3/2/2021		2,763.52		2,450.59		312.93	
9/2/2021	12,772.00	2,763.52	12,161.99	2,450.59	610.01	312.93	1,235.87
3/2/2022		2,288.48		2,023.65		264.83	
9/2/2022	13,725.13	2,288.48	12,943.56	2,023.65	781.57	264.83	1,311.23
3/2/2023		1,777.40		1,569.26		208.14	
9/2/2023	14,773.58	1,777.40	13,972.95	1,569.26	800.63	208.14	1,216.91
3/2/2024		1,226.97		1,078.74		148.23	
9/2/2024	15,822.03	1,226.97	14,830.77	1,078.74	991.26	148.23	1,287.72
3/2/2025		637.17		558.11		79.06	
9/2/2025	17,061.10	637.17	15,898.28	558.11	1,162.82	79.06	1,320.94
Totals	\$194,058.12	\$183,685.95	191,675.29	\$167,331.64	\$2,382.83	\$16,354.31	\$25,628.43

CITY OF MORGAN HILL
Assessment District No. 2000-1 (Madrone Business Park)
Limited Obligation Refunding Improvement Bonds, Series 2005

94-1E - Comparison of the Refunded Parcel's Amortization with the Refunding Parcel's Amortization

APN: 726-33-025

Reassessment ID: 6

Payment Date	Refunded Amortization		Refunding Amortization		Savings		Annual Total
	Principal	Interest	Principal	Interest	Principal	Interest	
3/2/2005		\$23,548.10		\$127.06		\$23,421.04	
9/2/2005	\$15,225.03	23,548.10	\$38,742.84	22,868.69	(\$23,517.81)	679.41	\$582.64
3/2/2006		23,087.63		21,508.63		1,579.00	
9/2/2006	15,872.90	23,087.63	14,641.94	21,508.63	1,230.96	1,579.00	4,388.96
3/2/2007		22,601.72		20,994.62		1,607.10	
9/2/2007	17,168.65	22,601.72	16,261.63	20,994.62	907.02	1,607.10	4,121.22
3/2/2008		22,068.84		20,423.76		1,645.08	
9/2/2008	18,140.46	22,068.84	16,974.29	20,423.76	1,166.17	1,645.08	4,456.33
3/2/2009		21,499.69		19,827.87		1,671.82	
9/2/2009	19,112.27	21,499.69	18,205.25	19,827.87	907.02	1,671.82	4,250.66
3/2/2010		20,887.77		19,188.78		1,698.99	
9/2/2010	20,731.96	20,887.77	19,824.93	19,188.78	907.03	1,698.99	4,305.01
3/2/2011		20,212.69		18,492.82		1,719.87	
9/2/2011	21,703.77	20,212.69	20,731.96	18,492.82	971.81	1,719.87	4,411.55
3/2/2012		19,498.41		17,765.03		1,733.38	
9/2/2012	23,323.45	19,498.41	22,286.85	17,765.03	1,036.60	1,733.38	4,503.36
3/2/2013		18,718.53		16,982.65		1,735.88	
9/2/2013	24,943.14	18,718.53	24,230.47	16,982.65	712.67	1,735.88	4,184.43
3/2/2014		17,867.71		16,132.04		1,735.67	
9/2/2014	26,562.82	17,867.71	25,785.37	16,132.04	777.45	1,735.67	4,248.79
3/2/2015		16,948.29		15,226.84		1,721.45	
9/2/2015	28,506.44	16,948.29	27,405.06	15,226.84	1,101.38	1,721.45	4,544.28
3/2/2016		15,899.06		14,264.79		1,634.27	
9/2/2016	30,450.06	15,899.06	29,348.68	14,264.79	1,101.38	1,634.27	4,369.92
3/2/2017		14,777.51		13,234.50		1,543.01	
9/2/2017	32,393.68	14,777.51	31,292.30	13,234.50	1,101.38	1,543.01	4,187.40
3/2/2018		13,583.64		12,135.99		1,447.65	
9/2/2018	35,309.11	13,583.64	33,883.79	12,135.99	1,425.32	1,447.65	4,320.62
3/2/2019		12,279.15		10,946.50		1,332.65	
9/2/2019	37,576.67	12,279.15	35,827.41	10,946.50	1,749.26	1,332.65	4,414.56
3/2/2020		10,891.00		9,688.78		1,202.22	
9/2/2020	40,492.10	10,891.00	38,742.84	9,688.78	1,749.26	1,202.22	4,153.70
3/2/2021		9,392.22		8,328.71		1,063.51	
9/2/2021	43,407.53	9,392.22	41,334.34	8,328.71	2,073.19	1,063.51	4,200.21
3/2/2022		7,777.72		6,877.67		900.05	
9/2/2022	46,646.90	7,777.72	43,990.62	6,877.67	2,656.28	900.05	4,456.38
3/2/2023		6,040.77		5,333.38		707.39	
9/2/2023	50,210.21	6,040.77	47,489.14	5,333.38	2,721.07	707.39	4,135.85
3/2/2024		4,170.04		3,666.27		503.77	
9/2/2024	53,773.51	4,170.04	50,404.57	3,666.27	3,368.94	503.77	4,376.48
3/2/2025		2,165.52		1,896.82		268.70	
9/2/2025	57,984.69	2,165.52	54,032.66	1,896.82	3,952.03	268.70	4,489.43
Totals	\$659,535.35	\$624,283.92	651,436.96	\$568,701.59	\$8,098.41	\$55,582.33	\$87,101.78

CITY OF MORGAN HILL
Assessment District No. 2000-1 (Madrone Business Park)
Limited Obligation Refunding Improvement Bonds, Series 2005

94-1E - Comparison of the Refunded Parcel's Amortization with the Refunding Parcel's Amortization

APN: 726-33-026

Reassessment ID: 7

Payment Date	Refunded Amortization		Refunding Amortization		Savings		Annual Total
	Principal	Interest	Principal	Interest	Principal	Interest	
3/2/2005		\$15,870.39		\$85.63		\$15,784.76	
9/2/2005	\$10,261.01	15,870.39	\$26,110.98	15,412.50	(\$15,849.97)	457.89	\$392.68
3/2/2006		15,560.05		14,495.87		1,064.18	
9/2/2006	10,697.64	15,560.05	9,868.03	14,495.87	829.61	1,064.18	2,957.97
3/2/2007		15,232.57		14,149.46		1,083.11	
9/2/2007	11,570.92	15,232.57	10,959.63	14,149.46	611.29	1,083.11	2,777.51
3/2/2008		14,873.44		13,764.72		1,108.72	
9/2/2008	12,225.88	14,873.44	11,439.93	13,764.72	785.95	1,108.72	3,003.39
3/2/2009		14,489.85		13,363.12		1,126.73	
9/2/2009	12,880.84	14,489.85	12,269.54	13,363.12	611.30	1,126.73	2,864.76
3/2/2010		14,077.44		12,932.40		1,145.04	
9/2/2010	13,972.43	14,077.44	13,361.14	12,932.40	611.29	1,145.04	2,901.37
3/2/2011		13,622.47		12,463.36		1,159.11	
9/2/2011	14,627.39	13,622.47	13,972.43	12,463.36	654.96	1,159.11	2,973.18
3/2/2012		13,141.07		11,972.85		1,168.22	
9/2/2012	15,718.99	13,141.07	15,020.37	11,972.85	698.62	1,168.22	3,035.06
3/2/2013		12,615.47		11,445.56		1,169.91	
9/2/2013	16,810.58	12,615.47	16,330.28	11,445.56	480.30	1,169.91	2,820.12
3/2/2014		12,042.05		10,872.29		1,169.76	
9/2/2014	17,902.18	12,042.05	17,378.21	10,872.29	523.97	1,169.76	2,863.49
3/2/2015		11,422.41		10,262.23		1,160.18	
9/2/2015	19,212.09	11,422.41	18,469.81	10,262.23	742.28	1,160.18	3,062.64
3/2/2016		10,715.27		9,613.84		1,101.43	
9/2/2016	20,522.01	10,715.27	19,779.72	9,613.84	742.29	1,101.43	2,945.15
3/2/2017		9,959.40		8,919.48		1,039.92	
9/2/2017	21,831.93	9,959.40	21,089.64	8,919.48	742.29	1,039.92	2,822.13
3/2/2018		9,154.78		8,179.12		975.66	
9/2/2018	23,796.80	9,154.78	22,836.19	8,179.12	960.61	975.66	2,911.93
3/2/2019		8,275.61		7,377.46		898.15	
9/2/2019	25,325.03	8,275.61	24,146.11	7,377.46	1,178.92	898.15	2,975.22
3/2/2020		7,340.06		6,529.81		810.25	
9/2/2020	27,289.91	7,340.06	26,110.98	6,529.81	1,178.93	810.25	2,799.43
3/2/2021		6,329.95		5,613.19		716.76	
9/2/2021	29,254.78	6,329.95	27,857.54	5,613.19	1,397.24	716.76	2,830.76
3/2/2022		5,241.85		4,635.25		606.60	
9/2/2022	31,437.97	5,241.85	29,647.76	4,635.25	1,790.21	606.60	3,003.41
3/2/2023		4,071.22		3,594.46		476.76	
9/2/2023	33,839.49	4,071.22	32,005.60	3,594.46	1,833.89	476.76	2,787.41
3/2/2024		2,810.42		2,470.91		339.51	
9/2/2024	36,241.00	2,810.42	33,970.48	2,470.91	2,270.52	339.51	2,949.54
3/2/2025		1,459.46		1,278.37		181.09	
9/2/2025	39,079.15	1,459.46	36,415.65	1,278.37	2,663.50	181.09	3,025.68
Totals	\$444,498.02	\$420,740.07	439,040.03	\$383,280.00	\$5,458.00	\$37,460.07	\$58,702.83

CITY OF MORGAN HILL
Assessment District No. 2000-1 (Madrone Business Park)
Limited Obligation Refunding Improvement Bonds, Series 2005

94-1E - Comparison of the Refunded Parcel's Amortization with the Refunding Parcel's Amortization

APN: 726-33-027

Reassessment ID: 8

Payment Date	Refunded Amortization		Refunding Amortization		Savings		Annual Total
	Principal	Interest	Principal	Interest	Principal	Interest	
3/2/2005		\$20,177.40		\$108.87		\$20,068.53	
9/2/2005	\$13,045.70	20,177.40	\$33,197.15	19,595.24	(\$20,151.45)	582.16	\$499.24
3/2/2006		19,782.84		18,429.86		1,352.98	
9/2/2006	13,600.84	19,782.84	12,546.08	18,429.86	1,054.76	1,352.98	3,760.72
3/2/2007		19,366.48		17,989.43		1,377.05	
9/2/2007	14,711.11	19,366.48	13,933.92	17,989.43	777.19	1,377.05	3,531.29
3/2/2008		18,909.89		17,500.28		1,409.61	
9/2/2008	15,543.82	18,909.89	14,544.57	17,500.28	999.25	1,409.61	3,818.47
3/2/2009		18,422.20		16,989.69		1,432.51	
9/2/2009	16,376.52	18,422.20	15,599.33	16,989.69	777.19	1,432.51	3,642.21
3/2/2010		17,897.87		16,442.08		1,455.79	
9/2/2010	17,764.36	17,897.87	16,987.17	16,442.08	777.19	1,455.79	3,688.77
3/2/2011		17,319.42		15,845.74		1,473.68	
9/2/2011	18,597.07	17,319.42	17,764.36	15,845.74	832.71	1,473.68	3,780.07
3/2/2012		16,707.38		15,222.12		1,485.26	
9/2/2012	19,984.91	16,707.38	19,096.69	15,222.12	888.22	1,485.26	3,858.74
3/2/2013		16,039.14		14,551.73		1,487.41	
9/2/2013	21,372.75	16,039.14	20,762.10	14,551.73	610.65	1,487.41	3,585.47
3/2/2014		15,310.10		13,822.88		1,487.22	
9/2/2014	22,760.59	15,310.10	22,094.42	13,822.88	666.17	1,487.22	3,640.61
3/2/2015		14,522.30		13,047.26		1,475.04	
9/2/2015	24,426.00	14,522.30	23,482.27	13,047.26	943.73	1,475.04	3,893.81
3/2/2016		13,623.25		12,222.91		1,400.34	
9/2/2016	26,091.41	13,623.25	25,147.67	12,222.91	943.74	1,400.34	3,744.42
3/2/2017		12,662.24		11,340.10		1,322.14	
9/2/2017	27,756.81	12,662.24	26,813.08	11,340.10	943.73	1,322.14	3,588.01
3/2/2018		11,639.27		10,398.83		1,240.44	
9/2/2018	30,254.93	11,639.27	29,033.63	10,398.83	1,221.30	1,240.44	3,702.18
3/2/2019		10,521.50		9,379.60		1,141.90	
9/2/2019	32,197.90	10,521.50	30,699.04	9,379.60	1,498.86	1,141.90	3,782.66
3/2/2020		9,332.05		8,301.91		1,030.14	
9/2/2020	34,696.02	9,332.05	33,197.15	8,301.91	1,498.87	1,030.14	3,559.15
3/2/2021		8,047.81		7,136.53		911.28	
9/2/2021	37,194.13	8,047.81	35,417.70	7,136.53	1,776.43	911.28	3,598.99
3/2/2022		6,664.41		5,893.19		771.22	
9/2/2022	39,969.81	6,664.41	37,693.75	5,893.19	2,276.06	771.22	3,818.50
3/2/2023		5,176.09		4,569.95		606.14	
9/2/2023	43,023.06	5,176.09	40,691.49	4,569.95	2,331.57	606.14	3,543.85
3/2/2024		3,573.13		3,141.48		431.65	
9/2/2024	46,076.31	3,573.13	43,189.60	3,141.48	2,886.71	431.65	3,750.01
3/2/2025		1,855.54		1,625.30		230.24	
9/2/2025	49,684.70	1,855.54	46,298.37	1,625.30	3,386.33	230.24	3,846.81
Totals	\$565,128.75	\$534,923.22	558,189.54	\$487,296.98	\$6,939.21	\$47,626.24	\$74,633.98

CITY OF MORGAN HILL
Assessment District No. 2000-1 (Madrone Business Park)
Limited Obligation Refunding Improvement Bonds, Series 2005

94-1E - Comparison of the Refunded Parcel's Amortization with the Refunding Parcel's Amortization

APN: 726-33-028

Reassessment ID: 9

Payment Date	Refunded Amortization		Refunding Amortization		Savings		Annual Total
	Principal	Interest	Principal	Interest	Principal	Interest	
3/2/2005		\$36,141.42		\$195.00		\$35,946.42	
9/2/2005	\$23,367.24	36,141.42	\$59,462.18	35,098.67	(\$36,094.94)	1,042.75	\$894.23
3/2/2006		35,434.69		33,011.25		2,423.44	
9/2/2006	24,361.60	35,434.69	22,472.33	33,011.25	1,889.27	2,423.44	6,736.15
3/2/2007		34,688.92		32,222.36		2,466.56	
9/2/2007	26,350.30	34,688.92	24,958.21	32,222.36	1,392.09	2,466.56	6,325.21
3/2/2008		33,871.07		31,346.20		2,524.87	
9/2/2008	27,841.82	33,871.07	26,051.99	31,346.20	1,789.83	2,524.87	6,839.57
3/2/2009		32,997.53		30,431.65		2,565.88	
9/2/2009	29,333.35	32,997.53	27,941.26	30,431.65	1,392.09	2,565.88	6,523.85
3/2/2010		32,058.37		29,450.77		2,607.60	
9/2/2010	31,819.23	32,058.37	30,427.14	29,450.77	1,392.09	2,607.60	6,607.29
3/2/2011		31,022.25		28,382.63		2,639.62	
9/2/2011	33,310.75	31,022.25	31,819.23	28,382.63	1,491.52	2,639.62	6,770.76
3/2/2012		29,925.98		27,265.61		2,660.37	
9/2/2012	35,796.63	29,925.98	34,205.67	27,265.61	1,590.96	2,660.37	6,911.70
3/2/2013		28,729.03		26,064.82		2,664.21	
9/2/2013	38,282.51	28,729.03	37,188.72	26,064.82	1,093.79	2,664.21	6,422.21
3/2/2014		27,423.20		24,759.31		2,663.89	
9/2/2014	40,768.38	27,423.20	39,575.16	24,759.31	1,193.22	2,663.89	6,521.00
3/2/2015		26,012.09		23,370.03		2,642.06	
9/2/2015	43,751.44	26,012.09	42,061.04	23,370.03	1,690.40	2,642.06	6,974.52
3/2/2016		24,401.74		21,893.47		2,508.27	
9/2/2016	46,734.49	24,401.74	45,044.09	21,893.47	1,690.40	2,508.27	6,706.94
3/2/2017		22,680.40		20,312.20		2,368.20	
9/2/2017	49,717.54	22,680.40	48,027.15	20,312.20	1,690.39	2,368.20	6,426.79
3/2/2018		20,848.06		18,626.21		2,221.85	
9/2/2018	54,192.12	20,848.06	52,004.55	18,626.21	2,187.57	2,221.85	6,631.27
3/2/2019		18,845.93		16,800.59		2,045.34	
9/2/2019	57,672.35	18,845.93	54,987.60	16,800.59	2,684.75	2,045.34	6,775.43
3/2/2020		16,715.41		14,870.25		1,845.16	
9/2/2020	62,146.93	16,715.41	59,462.18	14,870.25	2,684.75	1,845.16	6,375.07
3/2/2021		14,415.10		12,782.83		1,632.27	
9/2/2021	66,621.51	14,415.10	63,439.58	12,782.83	3,181.93	1,632.27	6,446.47
3/2/2022		11,937.18		10,555.78		1,381.40	
9/2/2022	71,593.26	11,937.18	67,516.42	10,555.78	4,076.84	1,381.40	6,839.64
3/2/2023		9,271.33		8,185.62		1,085.71	
9/2/2023	77,062.19	9,271.33	72,885.92	8,185.62	4,176.27	1,085.71	6,347.69
3/2/2024		6,400.14		5,626.96		773.18	
9/2/2024	82,531.12	6,400.14	77,360.50	5,626.96	5,170.62	773.18	6,716.98
3/2/2025		3,323.62		2,911.22		412.40	
9/2/2025	88,994.40	3,323.62	82,928.86	2,911.22	6,065.54	412.40	6,890.34
Totals	\$1,012,249.16	\$958,145.50	999,819.77	\$872,838.19	\$12,429.38	\$85,307.31	\$133,683.11

CITY OF MORGAN HILL
Assessment District No. 2000-1 (Madrone Business Park)
Limited Obligation Refunding Improvement Bonds, Series 2005

94-1E - Comparison of the Refunded Parcel's Amortization with the Refunding Parcel's Amortization

APN: 726-35-007

Reassessment ID: 10

Payment Date	Refunded Amortization		Refunding Amortization		Savings		Annual Total
	Principal	Interest	Principal	Interest	Principal	Interest	
3/2/2005		\$19,424.53		\$104.81		\$19,319.72	
9/2/2005	\$12,558.93	19,424.53	\$31,958.48	18,864.09	(\$19,399.55)	560.44	\$480.61
3/2/2006		19,044.69		17,742.19		1,302.50	
9/2/2006	13,093.36	19,044.69	12,077.95	17,742.19	1,015.41	1,302.50	3,620.41
3/2/2007		18,643.87		17,318.20		1,325.67	
9/2/2007	14,162.20	18,643.87	13,414.01	17,318.20	748.19	1,325.67	3,399.53
3/2/2008		18,204.31		16,847.30		1,357.01	
9/2/2008	14,963.84	18,204.31	14,001.88	16,847.30	961.96	1,357.01	3,675.98
3/2/2009		17,734.82		16,355.76		1,379.06	
9/2/2009	15,765.47	17,734.82	15,017.28	16,355.76	748.19	1,379.06	3,506.31
3/2/2010		17,230.06		15,828.58		1,401.48	
9/2/2010	17,101.53	17,230.06	16,353.34	15,828.58	748.19	1,401.48	3,551.15
3/2/2011		16,673.19		15,254.50		1,418.69	
9/2/2011	17,903.16	16,673.19	17,101.53	15,254.50	801.63	1,418.69	3,639.01
3/2/2012		16,083.99		14,654.15		1,429.84	
9/2/2012	19,239.22	16,083.99	18,384.14	14,654.15	855.08	1,429.84	3,714.76
3/2/2013		15,440.67		14,008.77		1,431.90	
9/2/2013	20,575.27	15,440.67	19,987.41	14,008.77	587.86	1,431.90	3,451.66
3/2/2014		14,738.84		13,307.11		1,431.73	
9/2/2014	21,911.33	14,738.84	21,270.02	13,307.11	641.31	1,431.73	3,504.77
3/2/2015		13,980.43		12,560.43		1,420.00	
9/2/2015	23,514.60	13,980.43	22,606.08	12,560.43	908.52	1,420.00	3,748.52
3/2/2016		13,114.93		11,766.84		1,348.09	
9/2/2016	25,117.87	13,114.93	24,209.35	11,766.84	908.52	1,348.09	3,604.70
3/2/2017		12,189.78		10,916.97		1,272.81	
9/2/2017	26,721.14	12,189.78	25,812.62	10,916.97	908.52	1,272.81	3,454.14
3/2/2018		11,204.97		10,010.82		1,194.15	
9/2/2018	29,126.04	11,204.97	27,950.31	10,010.82	1,175.73	1,194.15	3,564.03
3/2/2019		10,128.91		9,029.63		1,099.28	
9/2/2019	30,996.52	10,128.91	29,553.58	9,029.63	1,442.94	1,099.28	3,641.50
3/2/2020		8,983.85		7,992.15		991.70	
9/2/2020	33,401.42	8,983.85	31,958.48	7,992.15	1,442.94	991.70	3,426.34
3/2/2021		7,747.53		6,870.25		877.28	
9/2/2021	35,806.32	7,747.53	34,096.17	6,870.25	1,710.15	877.28	3,464.71
3/2/2022		6,415.74		5,673.30		742.44	
9/2/2022	38,478.44	6,415.74	36,287.30	5,673.30	2,191.14	742.44	3,676.02
3/2/2023		4,982.96		4,399.43		583.53	
9/2/2023	41,417.76	4,982.96	39,173.19	4,399.43	2,244.57	583.53	3,411.63
3/2/2024		3,439.81		3,024.26		415.55	
9/2/2024	44,357.09	3,439.81	41,578.09	3,024.26	2,779.00	415.55	3,610.10
3/2/2025		1,786.31		1,564.66		221.65	
9/2/2025	47,830.83	1,786.31	44,570.85	1,564.66	3,259.98	221.65	3,703.28
Totals	\$544,042.34	\$514,963.85	537,362.04	\$469,114.69	\$6,680.28	\$45,849.16	\$71,849.16

CITY OF MORGAN HILL
Assessment District No. 2000-1 (Madrone Business Park)
Limited Obligation Refunding Improvement Bonds, Series 2005

94-1E - Comparison of the Refunded Parcel's Amortization with the Refunding Parcel's Amortization

APN: 726-35-014

Reassessment ID: 11

Payment Date	Refunded Amortization		Refunding Amortization		Savings		Annual Total
	Principal	Interest	Principal	Interest	Principal	Interest	
3/2/2005		\$34,536.66		\$186.34		\$34,350.32	
9/2/2005	\$22,329.69	34,536.66	\$56,821.93	33,540.21	(\$34,492.24)	996.45	\$854.53
3/2/2006		33,861.31		31,545.48		2,315.83	
9/2/2006	23,279.89	33,861.31	21,474.51	31,545.48	1,805.38	2,315.83	6,437.04
3/2/2007		33,148.66		30,791.62		2,357.04	
9/2/2007	25,180.29	33,148.66	23,850.01	30,791.62	1,330.28	2,357.04	6,044.36
3/2/2008		32,367.12		29,954.36		2,412.76	
9/2/2008	26,605.59	32,367.12	24,895.23	29,954.36	1,710.36	2,412.76	6,535.88
3/2/2009		31,532.37		29,080.42		2,451.95	
9/2/2009	28,030.88	31,532.37	26,700.61	29,080.42	1,330.27	2,451.95	6,234.17
3/2/2010		30,634.91		28,143.09		2,491.82	
9/2/2010	30,406.38	30,634.91	29,076.10	28,143.09	1,330.28	2,491.82	6,313.92
3/2/2011		29,644.80		27,122.38		2,522.42	
9/2/2011	31,831.68	29,644.80	30,406.38	27,122.38	1,425.30	2,522.42	6,470.14
3/2/2012		28,597.20		26,054.96		2,542.24	
9/2/2012	34,207.18	28,597.20	32,686.86	26,054.96	1,520.32	2,542.24	6,604.80
3/2/2013		27,453.40		24,907.49		2,545.91	
9/2/2013	36,582.68	27,453.40	35,537.46	24,907.49	1,045.22	2,545.91	6,137.04
3/2/2014		26,205.55		23,659.94		2,545.61	
9/2/2014	38,958.18	26,205.55	37,817.94	23,659.94	1,140.24	2,545.61	6,231.46
3/2/2015		24,857.10		22,332.35		2,524.75	
9/2/2015	41,808.78	24,857.10	40,193.44	22,332.35	1,615.34	2,524.75	6,664.84
3/2/2016		23,318.25		20,921.36		2,396.89	
9/2/2016	44,659.38	23,318.25	43,044.04	20,921.36	1,615.34	2,396.89	6,409.12
3/2/2017		21,673.34		19,410.29		2,263.05	
9/2/2017	47,509.97	21,673.34	45,894.63	19,410.29	1,615.34	2,263.05	6,141.44
3/2/2018		19,922.36		17,799.16		2,123.20	
9/2/2018	51,785.87	19,922.36	49,695.43	17,799.16	2,090.44	2,123.20	6,336.84
3/2/2019		18,009.13		16,054.60		1,954.53	
9/2/2019	55,111.57	18,009.13	52,546.03	16,054.60	2,565.54	1,954.53	6,474.60
3/2/2020		15,973.21		14,209.98		1,763.23	
9/2/2020	59,387.47	15,973.21	56,821.93	14,209.98	2,565.54	1,763.23	6,092.00
3/2/2021		13,775.04		12,215.24		1,559.80	
9/2/2021	63,663.36	13,775.04	60,622.73	12,215.24	3,040.63	1,559.80	6,160.23
3/2/2022		11,407.14		10,087.08		1,320.06	
9/2/2022	68,414.36	11,407.14	64,518.54	10,087.08	3,895.82	1,320.06	6,535.94
3/2/2023		8,859.66		7,822.16		1,037.50	
9/2/2023	73,640.46	8,859.66	69,649.62	7,822.16	3,990.84	1,037.50	6,065.84
3/2/2024		6,115.96		5,377.11		738.85	
9/2/2024	78,866.56	6,115.96	73,925.52	5,377.11	4,941.04	738.85	6,418.74
3/2/2025		3,176.04		2,781.95		394.09	
9/2/2025	85,042.85	3,176.04	79,246.64	2,781.95	5,796.21	394.09	6,584.39
Totals	\$967,303.07	\$915,601.76	955,425.57	\$834,082.25	\$11,877.49	\$81,519.51	\$127,747.32

CITY OF MORGAN HILL
Assessment District No. 2000-1 (Madrone Business Park)
Limited Obligation Refunding Improvement Bonds, Series 2005

94-1E - Comparison of the Refunded Parcel's Amortization with the Refunding Parcel's Amortization

APN: 726-35-015

Reassessment ID: 12

Payment Date	Refunded Amortization		Refunding Amortization		Savings		Annual Total
	Principal	Interest	Principal	Interest	Principal	Interest	
3/2/2005		\$8,437.30		\$45.52		\$8,391.78	
9/2/2005	\$5,455.14	8,437.30	\$13,881.58	8,193.86	(\$8,426.44)	243.44	\$208.78
3/2/2006		8,272.31		7,706.55		565.76	
9/2/2006	5,687.27	8,272.31	5,246.22	7,706.55	441.05	565.76	1,572.57
3/2/2007		8,098.21		7,522.38		575.83	
9/2/2007	6,151.54	8,098.21	5,826.55	7,522.38	324.99	575.83	1,476.65
3/2/2008		7,907.28		7,317.84		589.44	
9/2/2008	6,499.74	7,907.28	6,081.90	7,317.84	417.84	589.44	1,596.72
3/2/2009		7,703.35		7,104.34		599.01	
9/2/2009	6,847.94	7,703.35	6,522.95	7,104.34	324.99	599.01	1,523.01
3/2/2010		7,484.10		6,875.35		608.75	
9/2/2010	7,428.27	7,484.10	7,103.28	6,875.35	324.99	608.75	1,542.49
3/2/2011		7,242.22		6,625.99		616.23	
9/2/2011	7,776.47	7,242.22	7,428.27	6,625.99	348.20	616.23	1,580.66
3/2/2012		6,986.29		6,365.22		621.07	
9/2/2012	8,356.80	6,986.29	7,985.39	6,365.22	371.41	621.07	1,613.55
3/2/2013		6,706.86		6,084.89		621.97	
9/2/2013	8,937.14	6,706.86	8,681.79	6,084.89	255.35	621.97	1,499.29
3/2/2014		6,402.01		5,780.12		621.89	
9/2/2014	9,517.47	6,402.01	9,238.91	5,780.12	278.56	621.89	1,522.34
3/2/2015		6,072.58		5,455.79		616.79	
9/2/2015	10,213.87	6,072.58	9,819.24	5,455.79	394.63	616.79	1,628.21
3/2/2016		5,696.64		5,111.08		585.56	
9/2/2016	10,910.27	5,696.64	10,515.64	5,111.08	394.63	585.56	1,565.75
3/2/2017		5,294.79		4,741.93		552.86	
9/2/2017	11,606.67	5,294.79	11,212.04	4,741.93	394.63	552.86	1,500.35
3/2/2018		4,867.03		4,348.33		518.70	
9/2/2018	12,651.27	4,867.03	12,140.58	4,348.33	510.69	518.70	1,548.09
3/2/2019		4,399.63		3,922.14		477.49	
9/2/2019	13,463.74	4,399.63	12,836.98	3,922.14	626.76	477.49	1,581.74
3/2/2020		3,902.25		3,471.49		430.76	
9/2/2020	14,508.34	3,902.25	13,881.58	3,471.49	626.76	430.76	1,488.28
3/2/2021		3,365.24		2,984.18		381.06	
9/2/2021	15,552.94	3,365.24	14,810.11	2,984.18	742.83	381.06	1,504.95
3/2/2022		2,786.76		2,464.27		322.49	
9/2/2022	16,713.61	2,786.76	15,761.86	2,464.27	951.75	322.49	1,596.73
3/2/2023		2,164.41		1,910.95		253.46	
9/2/2023	17,990.34	2,164.41	17,015.38	1,910.95	974.96	253.46	1,481.88
3/2/2024		1,494.13		1,313.63		180.50	
9/2/2024	19,267.08	1,494.13	18,059.98	1,313.63	1,207.10	180.50	1,568.10
3/2/2025		775.91		679.63		96.28	
9/2/2025	20,775.94	775.91	19,359.93	679.63	1,416.01	96.28	1,608.57
Totals	\$236,311.85	\$223,681.30	233,410.17	\$203,766.06	\$2,901.69	\$19,915.24	\$31,208.71

CITY OF MORGAN HILL
Assessment District No. 2000-1 (Madrone Business Park)
Limited Obligation Refunding Improvement Bonds, Series 2005

94-1E - Comparison of the Refunded Parcel's Amortization with the Refunding Parcel's Amortization

APN: 726-35-017

Reassessment ID: 13

Payment Date	Refunded Amortization		Refunding Amortization		Savings		Annual Total
	Principal	Interest	Principal	Interest	Principal	Interest	
3/2/2005		\$25,574.38		\$137.99		\$25,436.39	
9/2/2005	\$16,535.12	25,574.38	\$42,076.61	24,836.51	(\$25,541.49)	737.87	\$632.77
3/2/2006		25,074.28		23,359.41		1,714.87	
9/2/2006	17,238.74	25,074.28	15,901.86	23,359.41	1,336.88	1,714.87	4,766.62
3/2/2007		24,546.56		22,801.18		1,745.38	
9/2/2007	18,645.99	24,546.56	17,660.92	22,801.18	985.07	1,745.38	4,475.83
3/2/2008		23,967.83		22,181.19		1,786.64	
9/2/2008	19,701.42	23,967.83	18,434.90	22,181.19	1,266.52	1,786.64	4,839.80
3/2/2009		23,349.70		21,534.03		1,815.67	
9/2/2009	20,756.85	23,349.70	19,771.78	21,534.03	985.07	1,815.67	4,616.41
3/2/2010		22,685.13		20,839.94		1,845.19	
9/2/2010	22,515.91	22,685.13	21,530.84	20,839.94	985.07	1,845.19	4,675.45
3/2/2011		21,951.96		20,084.10		1,867.86	
9/2/2011	23,571.34	21,951.96	22,515.91	20,084.10	1,055.43	1,867.86	4,791.15
3/2/2012		21,176.21		19,293.68		1,882.53	
9/2/2012	25,330.40	21,176.21	24,204.60	19,293.68	1,125.80	1,882.53	4,890.86
3/2/2013		20,329.23		18,443.98		1,885.25	
9/2/2013	27,089.45	20,329.23	26,315.47	18,443.98	773.98	1,885.25	4,544.48
3/2/2014		19,405.20		17,520.18		1,885.02	
9/2/2014	28,848.51	19,405.20	28,004.16	17,520.18	844.35	1,885.02	4,614.39
3/2/2015		18,406.67		16,537.09		1,869.58	
9/2/2015	30,959.38	18,406.67	29,763.22	16,537.09	1,196.16	1,869.58	4,935.32
3/2/2016		17,267.15		15,492.25		1,774.90	
9/2/2016	33,070.24	17,267.15	31,874.09	15,492.25	1,196.15	1,774.90	4,745.95
3/2/2017		16,049.09		14,373.31		1,675.78	
9/2/2017	35,181.11	16,049.09	33,984.95	14,373.31	1,196.16	1,675.78	4,547.72
3/2/2018		14,752.49		13,180.27		1,572.22	
9/2/2018	38,347.41	14,752.49	36,799.44	13,180.27	1,547.97	1,572.22	4,692.41
3/2/2019		13,335.75		11,888.43		1,447.32	
9/2/2019	40,810.09	13,335.75	38,910.31	11,888.43	1,899.78	1,447.32	4,794.42
3/2/2020		11,828.15		10,522.48		1,305.67	
9/2/2020	43,976.39	11,828.15	42,076.61	10,522.48	1,899.78	1,305.67	4,511.12
3/2/2021		10,200.41		9,045.38		1,155.03	
9/2/2021	47,142.69	10,200.41	44,891.10	9,045.38	2,251.59	1,155.03	4,561.65
3/2/2022		8,446.98		7,469.48		977.50	
9/2/2022	50,660.80	8,446.98	47,775.95	7,469.48	2,884.85	977.50	4,839.85
3/2/2023		6,560.57		5,792.30		768.27	
9/2/2023	54,530.72	6,560.57	51,575.51	5,792.30	2,955.21	768.27	4,491.75
3/2/2024		4,528.86		3,981.75		547.11	
9/2/2024	58,400.64	4,528.86	54,741.81	3,981.75	3,658.83	547.11	4,753.05
3/2/2025		2,351.86		2,060.03		291.83	
9/2/2025	62,974.19	2,351.86	58,682.09	2,060.03	4,292.10	291.83	4,875.76
Totals	\$716,287.39	\$678,002.54	707,492.11	\$617,637.43	\$8,795.26	\$60,365.11	\$94,596.76

CITY OF MORGAN HILL
Assessment District No. 2000-1 (Madrone Business Park)
Limited Obligation Refunding Improvement Bonds, Series 2005

94-1E - Comparison of the Refunded Parcel's Amortization with the Refunding Parcel's Amortization

APN: 726-35-018

Reassessment ID: 14

Payment Date	Refunded Amortization		Refunding Amortization		Savings		Annual Total
	Principal	Interest	Principal	Interest	Principal	Interest	
3/2/2005		\$14,512.15		\$78.30		\$14,433.85	
9/2/2005	\$9,382.83	14,512.15	\$23,876.32	14,093.45	(\$14,493.49)	418.70	\$359.06
3/2/2006		14,228.37		13,255.27		973.10	
9/2/2006	9,782.10	14,228.37	9,023.49	13,255.27	758.61	973.10	2,704.81
3/2/2007		13,928.92		12,938.50		990.42	
9/2/2007	10,580.64	13,928.92	10,021.66	12,938.50	558.98	990.42	2,539.82
3/2/2008		13,600.52		12,586.69		1,013.83	
9/2/2008	11,179.55	13,600.52	10,460.86	12,586.69	718.69	1,013.83	2,746.35
3/2/2009		13,249.76		12,219.46		1,030.30	
9/2/2009	11,778.45	13,249.76	11,219.47	12,219.46	558.98	1,030.30	2,619.58
3/2/2010		12,872.65		11,825.60		1,047.05	
9/2/2010	12,776.62	12,872.65	12,217.65	11,825.60	558.97	1,047.05	2,653.07
3/2/2011		12,456.61		11,396.70		1,059.91	
9/2/2011	13,375.53	12,456.61	12,776.62	11,396.70	598.91	1,059.91	2,718.73
3/2/2012		12,016.41		10,948.18		1,068.23	
9/2/2012	14,373.70	12,016.41	13,734.87	10,948.18	638.83	1,068.23	2,775.29
3/2/2013		11,535.79		10,466.01		1,069.78	
9/2/2013	15,371.88	11,535.79	14,932.68	10,466.01	439.20	1,069.78	2,578.76
3/2/2014		11,011.45		9,941.80		1,069.65	
9/2/2014	16,370.05	11,011.45	15,890.93	9,941.80	479.12	1,069.65	2,618.42
3/2/2015		10,444.84		9,383.95		1,060.89	
9/2/2015	17,567.86	10,444.84	16,889.10	9,383.95	678.76	1,060.89	2,800.54
3/2/2016		9,798.22		8,791.06		1,007.16	
9/2/2016	18,765.67	9,798.22	18,086.91	8,791.06	678.76	1,007.16	2,693.08
3/2/2017		9,107.04		8,156.12		950.92	
9/2/2017	19,963.47	9,107.04	19,284.72	8,156.12	678.75	950.92	2,580.59
3/2/2018		8,371.28		7,479.13		892.15	
9/2/2018	21,760.19	8,371.28	20,881.79	7,479.13	878.40	892.15	2,662.70
3/2/2019		7,567.35		6,746.07		821.28	
9/2/2019	23,157.63	7,567.35	22,079.60	6,746.07	1,078.03	821.28	2,720.59
3/2/2020		6,711.87		5,970.97		740.90	
9/2/2020	24,954.34	6,711.87	23,876.32	5,970.97	1,078.02	740.90	2,559.82
3/2/2021		5,788.21		5,132.79		655.42	
9/2/2021	26,751.06	5,788.21	25,473.39	5,132.79	1,277.67	655.42	2,588.51
3/2/2022		4,793.23		4,238.55		554.68	
9/2/2022	28,747.40	4,793.23	27,110.40	4,238.55	1,637.00	554.68	2,746.36
3/2/2023		3,722.79		3,286.84		435.95	
9/2/2023	30,943.38	3,722.79	29,266.45	3,286.84	1,676.93	435.95	2,548.83
3/2/2024		2,569.90		2,259.44		310.46	
9/2/2024	33,139.37	2,569.90	31,063.17	2,259.44	2,076.20	310.46	2,697.12
3/2/2025		1,334.56		1,168.96		165.60	
9/2/2025	35,734.62	1,334.56	33,299.07	1,168.96	2,435.55	165.60	2,766.75
Totals	\$406,456.34	\$384,731.69	401,465.46	\$350,477.63	\$4,990.87	\$34,254.06	\$53,678.78

CITY OF MORGAN HILL
Assessment District No. 2000-1 (Madrone Business Park)
Limited Obligation Refunding Improvement Bonds, Series 2005

94-1E - Comparison of the Refunded Parcel's Amortization with the Refunding Parcel's Amortization

APN: 726-35-019

Reassessment ID: 15

Payment Date	Refunded Amortization		Refunding Amortization		Savings		Annual Total
	Principal	Interest	Principal	Interest	Principal	Interest	
3/2/2005		\$11,287.23		\$60.90		\$11,226.33	
9/2/2005	\$7,297.76	11,287.23	\$18,570.47	10,961.57	(\$11,272.71)	325.66	\$279.28
3/2/2006		11,066.51		10,309.65		756.86	
9/2/2006	7,608.30	11,066.51	7,018.27	10,309.65	590.03	756.86	2,103.75
3/2/2007		10,833.60		10,063.28		770.32	
9/2/2007	8,229.39	10,833.60	7,794.63	10,063.28	434.76	770.32	1,975.40
3/2/2008		10,578.18		9,789.65		788.53	
9/2/2008	8,695.20	10,578.18	8,136.22	9,789.65	558.98	788.53	2,136.04
3/2/2009		10,305.37		9,504.02		801.35	
9/2/2009	9,161.02	10,305.37	8,726.26	9,504.02	434.76	801.35	2,037.46
3/2/2010		10,012.06		9,197.69		814.37	
9/2/2010	9,937.37	10,012.06	9,502.61	9,197.69	434.76	814.37	2,063.50
3/2/2011		9,688.47		8,864.10		824.37	
9/2/2011	10,403.19	9,688.47	9,937.37	8,864.10	465.82	824.37	2,114.56
3/2/2012		9,346.10		8,515.25		830.85	
9/2/2012	11,179.55	9,346.10	10,682.68	8,515.25	496.87	830.85	2,158.57
3/2/2013		8,972.28		8,140.23		832.05	
9/2/2013	11,955.90	8,972.28	11,614.31	8,140.23	341.59	832.05	2,005.69
3/2/2014		8,564.46		7,732.51		831.95	
9/2/2014	12,732.26	8,564.46	12,359.61	7,732.51	372.65	831.95	2,036.55
3/2/2015		8,123.76		7,298.63		825.13	
9/2/2015	13,663.89	8,123.76	13,135.97	7,298.63	527.92	825.13	2,178.18
3/2/2016		7,620.84		6,837.49		783.35	
9/2/2016	14,595.52	7,620.84	14,067.59	6,837.49	527.93	783.35	2,094.63
3/2/2017		7,083.25		6,343.65		739.60	
9/2/2017	15,527.15	7,083.25	14,999.22	6,343.65	527.93	739.60	2,007.13
3/2/2018		6,511.00		5,817.10		693.90	
9/2/2018	16,924.59	6,511.00	16,241.40	5,817.10	683.19	693.90	2,070.99
3/2/2019		5,885.72		5,246.94		638.78	
9/2/2019	18,011.49	5,885.72	17,173.02	5,246.94	838.47	638.78	2,116.03
3/2/2020		5,220.34		4,644.09		576.25	
9/2/2020	19,408.93	5,220.34	18,570.47	4,644.09	838.46	576.25	1,990.96
3/2/2021		4,501.94		3,992.17		509.77	
9/2/2021	20,806.38	4,501.94	19,812.64	3,992.17	993.74	509.77	2,013.28
3/2/2022		3,728.07		3,296.65		431.42	
9/2/2022	22,359.09	3,728.07	21,085.86	3,296.65	1,273.23	431.42	2,136.07
3/2/2023		2,895.50		2,556.43		339.07	
9/2/2023	24,067.08	2,895.50	22,762.80	2,556.43	1,304.28	339.07	1,982.42
3/2/2024		1,998.81		1,757.34		241.47	
9/2/2024	25,775.06	1,998.81	24,160.24	1,757.34	1,614.82	241.47	2,097.76
3/2/2025		1,037.99		909.19		128.80	
9/2/2025	27,793.59	1,037.99	25,899.28	909.19	1,894.31	128.80	2,151.91
Totals	\$316,132.71	\$299,235.73	312,250.91	\$272,593.69	\$3,881.79	\$26,642.04	\$41,750.16

CITY OF MORGAN HILL
Assessment District No. 2000-1 (Madrone Business Park)
Limited Obligation Refunding Improvement Bonds, Series 2005

94-1E - Comparison of the Refunded Parcel's Amortization with the Refunding Parcel's Amortization

APN: 726-35-020

Reassessment ID: 16

Payment Date	Refunded Amortization		Refunding Amortization		Savings		Annual Total
	Principal	Interest	Principal	Interest	Principal	Interest	
3/2/2005		\$10,199.75		\$55.03		\$10,144.72	
9/2/2005	\$6,594.65	10,199.75	\$16,781.29	9,905.47	(\$10,186.64)	294.28	\$252.36
3/2/2006		10,000.30		9,316.36		683.94	
9/2/2006	6,875.28	10,000.30	6,342.09	9,316.36	533.19	683.94	1,901.07
3/2/2007		9,789.83		9,093.72		696.11	
9/2/2007	7,436.52	9,789.83	7,043.65	9,093.72	392.87	696.11	1,785.09
3/2/2008		9,559.02		8,846.46		712.56	
9/2/2008	7,857.46	9,559.02	7,352.34	8,846.46	505.12	712.56	1,930.24
3/2/2009		9,312.49		8,588.35		724.14	
9/2/2009	8,278.39	9,312.49	7,885.52	8,588.35	392.87	724.14	1,841.15
3/2/2010		9,047.44		8,311.53		735.91	
9/2/2010	8,979.95	9,047.44	8,587.08	8,311.53	392.87	735.91	1,864.69
3/2/2011		8,755.03		8,010.08		744.95	
9/2/2011	9,400.89	8,755.03	8,979.95	8,010.08	420.94	744.95	1,910.84
3/2/2012		8,445.65		7,694.84		750.81	
9/2/2012	10,102.45	8,445.65	9,653.45	7,694.84	449.00	750.81	1,950.62
3/2/2013		8,107.84		7,355.96		751.88	
9/2/2013	10,804.01	8,107.84	10,495.32	7,355.96	308.69	751.88	1,812.45
3/2/2014		7,739.32		6,987.52		751.80	
9/2/2014	11,505.56	7,739.32	11,168.82	6,987.52	336.74	751.80	1,840.34
3/2/2015		7,341.08		6,595.44		745.64	
9/2/2015	12,347.43	7,341.08	11,870.37	6,595.44	477.06	745.64	1,968.34
3/2/2016		6,886.61		6,178.73		707.88	
9/2/2016	13,189.31	6,886.61	12,712.25	6,178.73	477.06	707.88	1,892.82
3/2/2017		6,400.81		5,732.46		668.35	
9/2/2017	14,031.18	6,400.81	13,554.12	5,732.46	477.06	668.35	1,813.76
3/2/2018		5,883.69		5,256.65		627.04	
9/2/2018	15,293.98	5,883.69	14,676.61	5,256.65	617.37	627.04	1,871.45
3/2/2019		5,318.66		4,741.43		577.23	
9/2/2019	16,276.16	5,318.66	15,518.48	4,741.43	757.68	577.23	1,912.14
3/2/2020		4,717.39		4,196.65		520.74	
9/2/2020	17,538.97	4,717.39	16,781.29	4,196.65	757.68	520.74	1,799.16
3/2/2021		4,068.20		3,607.54		460.66	
9/2/2021	18,801.78	4,068.20	17,903.78	3,607.54	898.00	460.66	1,819.32
3/2/2022		3,368.89		2,979.03		389.86	
9/2/2022	20,204.89	3,368.89	19,054.34	2,979.03	1,150.55	389.86	1,930.27
3/2/2023		2,616.53		2,310.13		306.40	
9/2/2023	21,748.32	2,616.53	20,569.70	2,310.13	1,178.62	306.40	1,791.42
3/2/2024		1,806.23		1,588.03		218.20	
9/2/2024	23,291.75	1,806.23	21,832.51	1,588.03	1,459.24	218.20	1,895.64
3/2/2025		937.98		821.60		116.38	
9/2/2025	25,115.80	937.98	23,404.00	821.60	1,711.80	116.38	1,944.56
Totals	\$285,674.73	\$270,405.73	282,166.95	\$246,330.49	\$3,507.77	\$24,075.24	\$37,727.73

CITY OF MORGAN HILL
Assessment District No. 2000-1 (Madrone Business Park)
Limited Obligation Refunding Improvement Bonds, Series 2005

94-1E - Comparison of the Refunded Parcel's Amortization with the Refunding Parcel's Amortization

APN: 726-35-023

Reassessment ID: 17

Payment Date	Refunded Amortization		Refunding Amortization		Savings		Annual Total
	Principal	Interest	Principal	Interest	Principal	Interest	
3/2/2005		\$37,468.86		\$202.17		\$37,266.69	
9/2/2005	\$24,225.50	37,468.86	\$61,646.16	36,387.81	(\$37,420.66)	1,081.05	\$927.08
3/2/2006		36,736.17		34,223.72		2,512.45	
9/2/2006	25,256.37	36,736.17	23,297.71	34,223.72	1,958.66	2,512.45	6,983.56
3/2/2007		35,963.01		33,405.86		2,557.15	
9/2/2007	27,318.12	35,963.01	25,874.89	33,405.86	1,443.23	2,557.15	6,557.53
3/2/2008		35,115.12		32,497.52		2,617.60	
9/2/2008	28,864.42	35,115.12	27,008.85	32,497.52	1,855.57	2,617.60	7,090.77
3/2/2009		34,209.50		31,549.37		2,660.13	
9/2/2009	30,410.73	34,209.50	28,967.51	31,549.37	1,443.22	2,660.13	6,763.48
3/2/2010		33,235.84		30,532.47		2,703.37	
9/2/2010	32,987.91	33,235.84	31,544.69	30,532.47	1,443.22	2,703.37	6,849.96
3/2/2011		32,161.67		29,425.09		2,736.58	
9/2/2011	34,534.22	32,161.67	32,987.91	29,425.09	1,546.31	2,736.58	7,019.47
3/2/2012		31,025.13		28,267.05		2,758.08	
9/2/2012	37,111.40	31,025.13	35,462.01	28,267.05	1,649.39	2,758.08	7,165.55
3/2/2013		29,784.22		27,022.16		2,762.06	
9/2/2013	39,688.58	29,784.22	38,554.62	27,022.16	1,133.96	2,762.06	6,658.08
3/2/2014		28,430.43		25,668.70		2,761.73	
9/2/2014	42,265.76	28,430.43	41,028.72	25,668.70	1,237.04	2,761.73	6,760.50
3/2/2015		26,967.49		24,228.38		2,739.11	
9/2/2015	45,358.38	26,967.49	43,605.90	24,228.38	1,752.48	2,739.11	7,230.70
3/2/2016		25,297.99		22,697.60		2,600.39	
9/2/2016	48,451.00	25,297.99	46,698.52	22,697.60	1,752.48	2,600.39	6,953.26
3/2/2017		23,513.42		21,058.25		2,455.17	
9/2/2017	51,543.62	23,513.42	49,791.13	21,058.25	1,752.49	2,455.17	6,662.83
3/2/2018		21,613.78		19,310.33		2,303.45	
9/2/2018	56,182.54	21,613.78	53,914.62	19,310.33	2,267.92	2,303.45	6,874.82
3/2/2019		19,538.12		17,417.66		2,120.46	
9/2/2019	59,790.59	19,538.12	57,007.24	17,417.66	2,783.35	2,120.46	7,024.27
3/2/2020		17,329.35		15,416.42		1,912.93	
9/2/2020	64,429.52	17,329.35	61,646.16	15,416.42	2,783.36	1,912.93	6,609.22
3/2/2021		14,944.56		13,252.33		1,692.23	
9/2/2021	69,068.44	14,944.56	65,769.65	13,252.33	3,298.79	1,692.23	6,683.25
3/2/2022		12,375.62		10,943.48		1,432.14	
9/2/2022	74,222.81	12,375.62	69,996.23	10,943.48	4,226.58	1,432.14	7,090.86
3/2/2023		9,611.85		8,486.27		1,125.58	
9/2/2023	79,892.60	9,611.85	75,562.94	8,486.27	4,329.66	1,125.58	6,580.82
3/2/2024		6,635.21		5,833.63		801.58	
9/2/2024	85,562.40	6,635.21	80,201.86	5,833.63	5,360.54	801.58	6,963.70
3/2/2025		3,445.69		3,018.14		427.55	
9/2/2025	92,263.07	3,445.69	85,974.75	3,018.14	6,288.32	427.55	7,143.42
Totals	\$1,049,427.98	\$993,337.20	1,036,542.10	\$904,896.67	\$12,885.91	\$88,440.53	\$138,593.13

CITY OF MORGAN HILL
Assessment District No. 2000-1 (Madrone Business Park)
Limited Obligation Refunding Improvement Bonds, Series 2005

94-1E - Comparison of the Refunded Parcel's Amortization with the Refunding Parcel's Amortization

APN: 726-35-025

Reassessment ID: 18

Payment Date	Refunded Amortization		Refunding Amortization		Savings		Annual Total
	Principal	Interest	Principal	Interest	Principal	Interest	
3/2/2005		\$39,666.77		\$214.02		\$39,452.75	
9/2/2005	\$25,646.56	39,666.77	\$65,262.31	38,522.31	(\$39,615.75)	1,144.46	\$981.46
3/2/2006		38,891.10		36,231.28		2,659.82	
9/2/2006	26,737.90	38,891.10	24,664.35	36,231.28	2,073.55	2,659.82	7,393.19
3/2/2007		38,072.59		35,365.43		2,707.16	
9/2/2007	28,920.59	38,072.59	27,392.71	35,365.43	1,527.88	2,707.16	6,942.20
3/2/2008		37,174.96		34,403.81		2,771.15	
9/2/2008	30,557.60	37,174.96	28,593.19	34,403.81	1,964.41	2,771.15	7,506.71
3/2/2009		36,216.22		33,400.05		2,816.17	
9/2/2009	32,194.62	36,216.22	30,666.74	33,400.05	1,527.88	2,816.17	7,160.22
3/2/2010		35,185.44		32,323.49		2,861.95	
9/2/2010	34,922.98	35,185.44	33,395.10	32,323.49	1,527.88	2,861.95	7,251.78
3/2/2011		34,048.26		31,151.16		2,897.10	
9/2/2011	36,559.99	34,048.26	34,922.98	31,151.16	1,637.01	2,897.10	7,431.21
3/2/2012		32,845.06		29,925.19		2,919.87	
9/2/2012	39,288.35	32,845.06	37,542.20	29,925.19	1,746.15	2,919.87	7,585.89
3/2/2013		31,531.36		28,607.27		2,924.09	
9/2/2013	42,016.71	31,531.36	40,816.23	28,607.27	1,200.48	2,924.09	7,048.66
3/2/2014		30,098.15		27,174.42		2,923.73	
9/2/2014	44,745.06	30,098.15	43,435.45	27,174.42	1,309.61	2,923.73	7,157.07
3/2/2015		28,549.40		25,649.61		2,899.79	
9/2/2015	48,019.09	28,549.40	46,163.81	25,649.61	1,855.28	2,899.79	7,654.86
3/2/2016		26,781.97		24,029.03		2,752.94	
9/2/2016	51,293.12	26,781.97	49,437.84	24,029.03	1,855.28	2,752.94	7,361.16
3/2/2017		24,892.72		22,293.52		2,599.20	
9/2/2017	54,567.15	24,892.72	52,711.87	22,293.52	1,855.28	2,599.20	7,053.68
3/2/2018		22,881.64		20,443.07		2,438.57	
9/2/2018	59,478.19	22,881.64	57,077.24	20,443.07	2,400.95	2,438.57	7,278.09
3/2/2019		20,684.22		18,439.37		2,244.85	
9/2/2019	63,297.89	20,684.22	60,351.27	18,439.37	2,946.62	2,244.85	7,436.32
3/2/2020		18,345.89		16,320.74		2,025.15	
9/2/2020	68,208.94	18,345.89	65,262.31	16,320.74	2,946.63	2,025.15	6,996.93
3/2/2021		15,821.20		14,029.71		1,791.49	
9/2/2021	73,119.98	15,821.20	69,627.68	14,029.71	3,492.30	1,791.49	7,075.28
3/2/2022		13,101.57		11,585.43		1,516.14	
9/2/2022	78,576.70	13,101.57	74,102.19	11,585.43	4,474.51	1,516.14	7,506.79
3/2/2023		10,175.68		8,984.07		1,191.61	
9/2/2023	84,579.08	10,175.68	79,995.44	8,984.07	4,583.64	1,191.61	6,966.86
3/2/2024		7,024.43		6,175.83		848.60	
9/2/2024	90,581.47	7,024.43	84,906.49	6,175.83	5,674.98	848.60	7,372.18
3/2/2025		3,647.81		3,195.19		452.62	
9/2/2025	97,675.20	3,647.81	91,018.01	3,195.19	6,657.19	452.62	7,562.43
Totals	\$1,110,987.17	\$1,051,606.11	1,097,345.40	\$957,977.65	\$13,641.76	\$93,628.46	\$146,722.97

CITY OF MORGAN HILL
Assessment District No. 2000-1 (Madrone Business Park)
Limited Obligation Refunding Improvement Bonds, Series 2005

94-1E - Comparison of the Refunded Parcel's Amortization with the Refunding Parcel's Amortization

APN: 726-35-027

Reassessment ID: 19

Payment Date	Refunded Amortization		Refunding Amortization		Savings		Annual Total
	Principal	Interest	Principal	Interest	Principal	Interest	
3/2/2005		\$7,503.07		\$40.48		\$7,462.59	
9/2/2005	\$4,851.11	7,503.07	\$12,344.53	7,286.59	(\$7,493.42)	216.48	\$185.65
3/2/2006		7,356.35		6,853.24		503.11	
9/2/2006	5,057.54	7,356.35	4,665.32	6,853.24	392.22	503.11	1,398.44
3/2/2007		7,201.53		6,689.46		512.07	
9/2/2007	5,470.40	7,201.53	5,181.40	6,689.46	289.00	512.07	1,313.14
3/2/2008		7,031.74		6,507.57		524.17	
9/2/2008	5,780.05	7,031.74	5,408.47	6,507.57	371.58	524.17	1,419.92
3/2/2009		6,850.39		6,317.70		532.69	
9/2/2009	6,089.69	6,850.39	5,800.69	6,317.70	289.00	532.69	1,354.38
3/2/2010		6,655.41		6,114.07		541.34	
9/2/2010	6,605.77	6,655.41	6,316.77	6,114.07	289.00	541.34	1,371.68
3/2/2011		6,440.31		5,892.32		547.99	
9/2/2011	6,915.41	6,440.31	6,605.77	5,892.32	309.64	547.99	1,405.62
3/2/2012		6,212.73		5,660.42		552.31	
9/2/2012	7,431.49	6,212.73	7,101.20	5,660.42	330.29	552.31	1,434.91
3/2/2013		5,964.23		5,411.14		553.09	
9/2/2013	7,947.57	5,964.23	7,720.49	5,411.14	227.08	553.09	1,333.26
3/2/2014		5,693.14		5,140.11		553.03	
9/2/2014	8,463.64	5,693.14	8,215.92	5,140.11	247.72	553.03	1,353.78
3/2/2015		5,400.19		4,851.69		548.50	
9/2/2015	9,082.93	5,400.19	8,732.00	4,851.69	350.93	548.50	1,447.93
3/2/2016		5,065.88		4,545.15		520.73	
9/2/2016	9,702.22	5,065.88	9,351.29	4,545.15	350.93	520.73	1,392.39
3/2/2017		4,708.52		4,216.87		491.65	
9/2/2017	10,321.51	4,708.52	9,970.58	4,216.87	350.93	491.65	1,334.23
3/2/2018		4,328.12		3,866.86		461.26	
9/2/2018	11,250.45	4,328.12	10,796.30	3,866.86	454.15	461.26	1,376.67
3/2/2019		3,912.47		3,487.85		424.62	
9/2/2019	11,972.96	3,912.47	11,415.59	3,487.85	557.37	424.62	1,406.61
3/2/2020		3,470.17		3,087.11		383.06	
9/2/2020	12,901.89	3,470.17	12,344.53	3,087.11	557.36	383.06	1,323.48
3/2/2021		2,992.62		2,653.75		338.87	
9/2/2021	13,830.83	2,992.62	13,170.25	2,653.75	660.58	338.87	1,338.32
3/2/2022		2,478.20		2,191.41		286.79	
9/2/2022	14,862.98	2,478.20	14,016.61	2,191.41	846.37	286.79	1,419.95
3/2/2023		1,924.76		1,699.36		225.40	
9/2/2023	15,998.35	1,924.76	15,131.34	1,699.36	867.01	225.40	1,317.81
3/2/2024		1,328.69		1,168.17		160.52	
9/2/2024	17,133.71	1,328.69	16,060.27	1,168.17	1,073.44	160.52	1,394.48
3/2/2025		689.99		604.38		85.61	
9/2/2025	18,475.51	689.99	17,216.28	604.38	1,259.23	85.61	1,430.45
Totals	\$210,146.01	\$198,913.95	207,565.63	\$181,203.85	\$2,580.41	\$17,710.10	\$27,753.10

CITY OF MORGAN HILL
Assessment District No. 2000-1 (Madrone Business Park)
Limited Obligation Refunding Improvement Bonds, Series 2005

94-1E - Comparison of the Refunded Parcel's Amortization with the Refunding Parcel's Amortization

APN: 726-35-028

Reassessment ID: 20

Payment Date	Refunded Amortization		Refunding Amortization		Savings		Annual Total
	Principal	Interest	Principal	Interest	Principal	Interest	
3/2/2005		\$18,483.80		\$99.73		\$18,384.07	
9/2/2005	\$11,950.71	18,483.80	\$30,410.73	17,950.51	(\$18,460.02)	533.29	\$457.34
3/2/2006		18,122.36		16,882.94		1,239.42	
9/2/2006	12,459.25	18,122.36	11,493.02	16,882.94	966.23	1,239.42	3,445.07
3/2/2007		17,740.95		16,479.48		1,261.47	
9/2/2007	13,476.33	17,740.95	12,764.37	16,479.48	711.96	1,261.47	3,234.90
3/2/2008		17,322.68		16,031.38		1,291.30	
9/2/2008	14,239.14	17,322.68	13,323.77	16,031.38	915.37	1,291.30	3,497.97
3/2/2009		16,875.92		15,563.65		1,312.27	
9/2/2009	15,001.95	16,875.92	14,289.99	15,563.65	711.96	1,312.27	3,336.50
3/2/2010		16,395.61		15,062.00		1,333.61	
9/2/2010	16,273.30	16,395.61	15,561.34	15,062.00	711.96	1,333.61	3,379.18
3/2/2011		15,865.71		14,515.72		1,349.99	
9/2/2011	17,036.11	15,865.71	16,273.30	14,515.72	762.81	1,349.99	3,462.79
3/2/2012		15,305.04		13,944.45		1,360.59	
9/2/2012	18,307.46	15,305.04	17,493.80	13,944.45	813.66	1,360.59	3,534.84
3/2/2013		14,692.88		13,330.33		1,362.55	
9/2/2013	19,578.82	14,692.88	19,019.42	13,330.33	559.40	1,362.55	3,284.50
3/2/2014		14,025.04		12,662.65		1,362.39	
9/2/2014	20,850.17	14,025.04	20,239.92	12,662.65	610.25	1,362.39	3,335.03
3/2/2015		13,303.36		11,952.13		1,351.23	
9/2/2015	22,375.79	13,303.36	21,511.27	11,952.13	864.52	1,351.23	3,566.98
3/2/2016		12,479.78		11,196.98		1,282.80	
9/2/2016	23,901.41	12,479.78	23,036.89	11,196.98	864.52	1,282.80	3,430.12
3/2/2017		11,599.43		10,388.27		1,211.16	
9/2/2017	25,427.03	11,599.43	24,562.51	10,388.27	864.52	1,211.16	3,286.84
3/2/2018		10,662.32		9,526.00		1,136.32	
9/2/2018	27,715.47	10,662.32	26,596.68	9,526.00	1,118.79	1,136.32	3,391.43
3/2/2019		9,638.37		8,592.32		1,046.05	
9/2/2019	29,495.36	9,638.37	28,122.30	8,592.32	1,373.06	1,046.05	3,465.16
3/2/2020		8,548.76		7,605.09		943.67	
9/2/2020	31,783.79	8,548.76	30,410.73	7,605.09	1,373.06	943.67	3,260.40
3/2/2021		7,372.31		6,537.52		834.79	
9/2/2021	34,072.23	7,372.31	32,444.90	6,537.52	1,627.33	834.79	3,296.91
3/2/2022		6,105.03		5,398.54		706.49	
9/2/2022	36,614.93	6,105.03	34,529.91	5,398.54	2,085.02	706.49	3,498.00
3/2/2023		4,741.63		4,186.37		555.26	
9/2/2023	39,411.90	4,741.63	37,276.03	4,186.37	2,135.87	555.26	3,246.39
3/2/2024		3,273.22		2,877.79		395.43	
9/2/2024	42,208.88	3,273.22	39,564.47	2,877.79	2,644.41	395.43	3,435.27
3/2/2025		1,699.80		1,488.88		210.92	
9/2/2025	45,514.39	1,699.80	42,412.29	1,488.88	3,102.10	210.92	3,523.94
Totals	\$517,694.42	\$490,024.20	511,337.66	\$446,395.49	\$6,356.78	\$43,628.71	\$68,369.56

CITY OF MORGAN HILL
Assessment District No. 2000-1 (Madrone Business Park)
Limited Obligation Refunding Improvement Bonds, Series 2005

Reassessment Roll

ASSMNT <u>ID</u>	<u>APN</u>	(1) TOTAL AS PRELIMINARILY <u>APPROVED</u>	(2) AS CONFIRMED <u>AND RECORDED</u>
1	726-33-020	\$309,529.70	
2	726-33-021	303,054.18	
3	726-33-022	187,789.99	
4	726-33-023	132,100.54	
5	726-33-024	191,675.29	
6	726-33-025	651,436.96	
7	726-33-026	439,040.03	
8	726-33-027	558,189.54	
9	726-33-028	999,819.77	
10	726-35-007	537,362.04	
11	726-35-014	955,425.57	
12	726-35-015	233,410.17	
13	726-35-017	707,492.11	
14	726-35-018	401,465.46	
15	726-35-019	312,250.91	
16	726-35-020	282,166.95	
17	726-35-023	1,036,542.10	
18	726-35-025	1,097,345.40	
19	726-35-027	207,565.63	
20	726-35-028	<u>511,337.66</u>	
20	PARCELS	\$10,055,000.00	\$0.00

CITY OF MORGAN HILL
Assessment District No. 2000-1 (Madrone Business Park)
Limited Obligation Refunding Improvement Bonds, Series 2005

<u>ID</u>	<u>APN</u>	<u>OWNER</u>	<u>ADDRESS</u>	<u>CITY</u>	<u>STATE</u>	<u>ZIP</u>
1	726-33-020	THARALDSON FAMILY	P O BOX 10519	FARGO	ND	58106
2	726-33-021	THARALDSON FAMILY	P O BOX 10519	FARGO	ND	58106
3	726-33-022	DOWNTOWN VANCOUVER	1028 RODEO RD	PEBBLE BEACH	CA	93953
4	726-33-023	IN-N-OUT BURGERS	13502 HAMBURGER LN	BALDWIN PARK	CA	91706
5	726-33-024	IN-N-OUT BURGERS	13502 HAMBURGER LN	BALDWIN PARK	CA	91706
6	726-33-025	MADRONE LAND CORPO	P O BOX 18730	SAN JOSE	CA	95158
7	726-33-026	MADRONE LAND CORPO	P O BOX 18730	SAN JOSE	CA	95158
8	726-33-027	TBI-MADRONE I LLC	1960 THE ALAMEDA	SAN JOSE	CA	95126
9	726-33-028	MADRONE LAND CORPO	P O BOX 18730	SAN JOSE	CA	95158
10	726-35-007	TBI MISSION W II L	1960 THE ALAMEDA #20	SAN JOSE	CA	95126
11	726-35-014	TBI MISSION W LLC	1960 THE ALAMEDA	SAN JOSE	CA	95126
12	726-35-015	TBI MISSION W II L	1960 THE ALAMEDA #20	SAN JOSE	CA	95126
13	726-35-017	TBI MISSION W LLC	1960 THE ALAMEDA	SAN JOSE	CA	95126
14	726-35-018	COMCAST OF CALIFOR	1500 MARKET ST	PHILADELPHIA	PA	19102
15	726-35-019	TBI MISSION W II L	1960 THE ALAMEDA #20	SAN JOSE	CA	95126
16	726-35-020	TBI MISSION W II L	1960 THE ALAMEDA #20	SAN JOSE	CA	95126
17	726-35-023	TBI MISSION W LLC	1960 THE ALAMEDA	SAN JOSE	CA	95126
18	726-35-025	TBI-MISSION WEST L	18735 MADRONE PKY	MORGAN HILL	CA	95037
19	726-35-027	COMCAST OF CALIFOR	1500 MARKET ST	PHILADELPHIA	PA	19102
20	726-35-028	TBI MISSION W LLC	1960 THE ALAMEDA #20	SAN JOSE	CA	95126

**City of Morgan Hill
Assessment District No. 2000-1 (Madrone Business Park)
Limited Obligation Refunding Improvement Bonds, Series 2005**

Method of Reassessment

Each Reassessment has been computed as a proration of the existing individual assessments to the total existing assessment.

**City of Morgan Hill
Assessment District No. 2000-1 (Madrone Business Park)
Limited Obligation Refunding Improvement Bonds, Series 2005**

Certifications

1. I, the City Clerk of the City of Morgan Hill, hereby certify that the foregoing Reassessment with the Reassessment Diagram thereto attached, was filed with me on _____.

City Clerk

2. I, the City Clerk of the City of Morgan Hill, hereby certify that the Reassessments set forth in Column (1) of the Reassessment Roll above, with the Reassessment Diagram attached, were approved and confirmed by the City Council of said City on _____.

City Clerk

3. I, the Superintendent of Streets of the City of Morgan Hill, Santa Clara, California, hereby certify that this Reassessment, together with the Reassessment Diagram thereto attached, was recorded in my office on _____.

Superintendent of Streets

4. A Notice of Reassessment was recorded and the Reassessment Diagram was filed in the Office of the County Recorder of Santa Clara County, California, on_____.

City Clerk

**City of Morgan Hill
Assessment District No. 2000-1 (Madrone Business Park)
Limited Obligation Refunding Improvement Bonds, Series 2005**

Reassessment Diagram

Reassessment Diagram
Limited Obligation Refunding Bonds
Madrone Business Park Assessment District No. 2000-1
Limited Obligation Refunding Improvement Bonds, Series 2005

City of Morgan Hill
 County of Santa Clara
 State of California

Filed in the office of the City Clerk of the City of Morgan Hill, this _____ day of _____, 20__.

 City Clerk
 City of Morgan Hill
 Santa Clara County, California

Notarized in the office of the City Clerk of the City of Morgan Hill, this _____ day of _____, 20__.

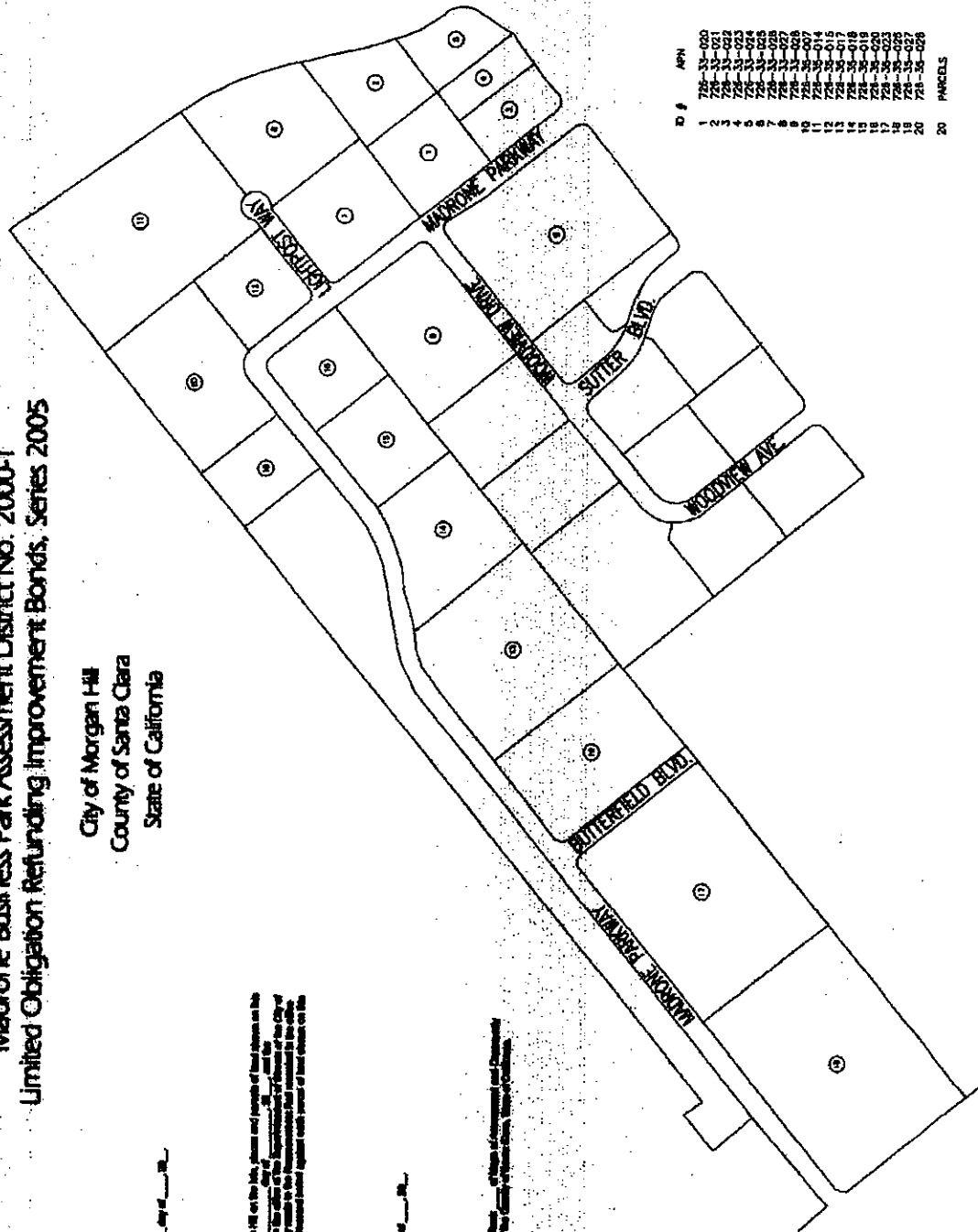
 City Clerk
 City of Morgan Hill
 Santa Clara County, California

Notarized in the office of the Supervisor of Morgan Hill, this _____ day of _____, 20__.

 Supervisor of Morgan Hill
 City of Morgan Hill
 Santa Clara County, California

Notarized in the office of the City Clerk of the City of Morgan Hill, this _____ day of _____, 20__.

 City Clerk
 City of Morgan Hill
 Santa Clara County, California



ID #	APN
1	728-33-000
2	728-33-001
3	728-33-002
4	728-33-003
5	728-33-004
6	728-33-005
7	728-33-006
8	728-33-007
9	728-33-008
10	728-33-009
11	728-33-010
12	728-33-011
13	728-33-012
14	728-33-013
15	728-33-014
16	728-33-015
17	728-33-016
18	728-33-017
19	728-33-018
20	728-33-019

**City of Morgan Hill
Assessment District No. 2000-1 (Madrone Business Park)
Limited Obligation Refunding Improvement Bonds, Series 2005**

Original Method of Assessment Spread

CITY OF MORGAN HILL
Engineer's Report
Assessment District No. 2000-1 (Madrone Business Park)

Method of Assessment

Background:

The Municipal Improvement Act of 1913 (the "1913 Act") and Section 4 of Article XIII D of the California Constitution ("Proposition 218") require the assessments be levied according to the special benefit each parcel receives from the improvement.

Neither the 1913 Act nor Proposition 218 specifies the method or formula that is to be used to apportion the costs of the improvements to the subject parcels. The responsibility for recommending the apportionment of the costs rests with the Assessment Engineer. The final authority for approval of the method of assessment rests with the City Council of the City of Morgan Hill. Their decision is based upon the hearing of all testimony and evidence presented at the required public hearings.

NBS Government Finance Group, as the Assessment Engineer, makes the following analysis and recommendation of the application of special benefit to the subject parcels.

Assessment of Benefit:

The purpose of this Assessment District is to fund the construction and/or acquisition of improvements necessary for the properties to develop to their highest and best use. Special benefit accrues to each parcel to be subdivided and served by the facilities to be constructed.

Only improvements conferring special benefit are included in the cost estimate. All improvements determined to be of general benefit are excluded from consideration within the Assessment District. Special benefit is defined as a particular and distinct benefit over and above general benefit conferred on real property located in the district or to the public at large. General enhancement of property value does not constitute special benefit. The fact that other property within the City to a greater or lesser extent benefited by the improvements will not have the effect of depriving the assessed property of its character of special benefit.

The Assessment District Improvements satisfy conditions of development by providing access, storm drain mitigation and backbone utilities so the project can support its planned uses. Without the improvements, the parcels within the Assessment District could not be developed to their planned and conditionally approved uses.

Since the area within the Assessment District has not been subdivided into individual lots, the assessments will be placed in aggregate upon the existing assessor's parcels and apportionment of the assessment will take place as final maps record.

CITY OF MORGAN HILL
Engineer's Report
Assessment District No. 2000-1 (Madrone Business Park)

The following Method of Apportionment of Assessment refers to front footage as a factor for the calculation of special benefit. Front footage is defined as the longest measurement of any one side of a parcel's street frontage. In the case of a cul-de-sac or knuckle frontage lot, a minimum front footage is established. The minimum front footage is defined to be equal to the shortest non cul-de-sac, non knuckle parcel's front footage of any parcel in the Assessment District. The calculated minimum front footage is 336.14 feet.

CITY OF MORGAN HILL
Engineer's Report
Assessment District No. 2000-1 (Madrone Business Park)

Method of Apportionment of Assessment:

The special benefit of the improvements are apportioned as follows:

Joint Trench Utilities

Total estimated cost of the Joint Trench Utilities is \$1,085,550.00. Of this amount \$634,550.00 is attributable to the common joint trench work and is spread according to front footage to all parcels. An amount of \$451,000.00 is attributable to undergrounding of existing utilities and is assessed to the parcel adjacent the utility and spread according to said parcel's actual lineal feet of frontage for the utility so undergrounded.

Landscape Improvements

The total estimated cost for the landscape improvements is \$860,000.00. This amount is spread according to front footage for all parcels in the Assessment District.

Street Improvements

The total cost of street improvements is \$2,318,140.00. Of this amount \$1,567,262.34 is spread according to front footage to all parcels in the Assessment District. An amount of \$750,877.66 (approximately 32% of the total cost of streets) is spread to Assessment ID No. 1 for mitigation of circulation requirements not otherwise necessitated by the development of the other parcels in the assessment district.

Sewer Improvements

The total cost of sanitary sewer improvements is \$244,650.00. Of this amount \$157,250.00 is attributable to the sewer mains and is spread according to acreage for all parcels served by the sewer main. An amount of \$72,800.00 is attributable to a sewer lift station and is spread according to acreage for all parcels served by the lift station. An amount of \$14,600.00 is attributable to sewer laterals and is spread per proposed parcel to all parcels requiring a sewer lateral to connect to the proposed system.

Storm Drain Improvements

The total cost of the storm drain system is \$4,888,070.00. This amount is spread according to acreage for all parcels in the Assessment District. A credit of \$3,987,700.00 is provided to Assessment ID No. 1 as consideration for the acquisition of an easement for the retention pond.

Domestic Water Improvements

The total cost of the domestic water improvements is \$462,980.00. Of this amount \$396,730.00 is attributable to the water mains and is spread according to front footage. An amount of \$14,600.00 is attributable to water lateral connections to the main line and is spread per actual proposed service connection.

Construction and/or Acquisition Indirect Costs

The total amount of the Construction and/or Acquisition Indirect Costs are \$1,300,000.00. This amount is spread prorata according to total Construction Costs.

CITY OF MORGAN HILL
Engineer's Report
Assessment District No. 2000-1 (Madrone Business Park)

Assessment District Formation Costs

The total amount of the Assessment District Formation Costs are \$217,000.00. This amount is spread prorata according to total Construction Costs.

Bond Financing Costs

The total amount of the Bond Financing Costs are \$2,179,700.00. This amount is spread prorata according to total Construction Costs.

CITY OF MORGAN HILL
Engineer's Report
Assessment District No. 2000-1 (Madrone Business Park)

Method of Future Apportionment of Assessment:

All future Apportionments of the Assessment shall be performed on the basis of net acreage of the newly created parcels exclusive of Rights-of-way and storm drain areas.

RESOLUTION NO. _____

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MORGAN HILL, CALIFORNIA, AUTHORIZING THE ISSUANCE AND SALE BY THE CITY OF ITS ASSESSMENT DISTRICT NO. 2000-1 (MADRONE BUSINESS PARK) LIMITED OBLIGATION REFUNDING IMPROVEMENT BONDS, SERIES 2005A AND ASSESSMENT DISTRICT NO. 2000-1 (MADRONE BUSINESS PARK) LIMITED OBLIGATION REFUNDING IMPROVEMENT BONDS, SERIES 2005B (TAXABLE); APPROVING AS TO FORM AND AUTHORIZING THE EXECUTION AND DELIVERY OF CERTAIN DOCUMENTS IN CONNECTION THEREWITH; AND APPROVING CERTAIN OTHER MATTERS RELATING THERETO

RECITALS:

WHEREAS, the City of Morgan Hill (the “City”) has heretofore formed Assessment District No. 2000-1 (Madrone Business Park) (the “District”) pursuant to the Municipal Improvement Act of 1913 (the “Improvement Act”) as set forth in Division 12 (commencing with Section 10000) of the California Streets and Highway Code (the “Code”); and

WHEREAS, the City has issued, pursuant to the Improvement Bond Act of 1915 as set forth in Division 10 (commencing with Section 8500) of the Code, its (i) Limited Obligation Improvement Bonds, Assessment District No. 2000-1 (Madrone Business Park), Series A 2000 (the “Prior 2000A Bonds”), of which \$8,620,000 in principal amount remain outstanding, and (ii) Limited Obligation Improvement Bonds, Assessment District No. 2000-1 (Madrone Business Park), Series B 2000 (Taxable) (the “Prior 2000B Bonds,” and together with the Prior 2000A Bonds, the “Prior Bonds”), of which \$1,440,000 in principal amount remain outstanding; and

WHEREAS, the City Council of the City (the “City Council”) has adopted its Resolution No. _____ (the “Resolution of Intention”) declaring its intention to issue bonds in two series to refund the Prior Bonds and to levy reassessments within the District to secure such refunding bonds, under and pursuant to the Refunding Act of 1984 for 1915 Improvement Act Bonds (the “1984 Refunding Act”), as set forth in Division 11.5 (commencing with Section 9500) of the California Streets and Highways Code; and

WHEREAS, the City Council, by its Resolution No. _____, has approved a reassessment report (the “Reassessment Report”) prepared by NBS Government Finance Group in connection with the proposed refunding and reassessment pursuant to Section 9523 of the 1984 Refunding Act, made the findings required by Section 9525 of the 1984 Refunding Act, and confirmed and adopted the reassessment and reassessment diagram presented with the Reassessment Report; and

WHEREAS, the aforementioned reassessment diagram and a notice of reassessment shall be duly recorded in the manner provided by law, and the reassessments and interest thereon shall be collected on the assessment roll for the County of Santa Clara in the same manner and subject

to the same remedies on default and to the payment of interest and penalties on the enforcement thereof as the original assessments in the District; and

WHEREAS, the City Council at this time desires to adopt this Resolution to authorize the issuance of the refunding bonds, which shall be designated as the City's (i) Assessment District No. 2000-1 (Madrone Business Park), Limited Obligation Refunding Improvement Bonds, Series 2005A (the "Reassessment 2005A Bonds") and (ii) Assessment District No. 2000-1 (Madrone Business Park), Limited Obligation Refunding Improvement Bonds, Series 2005B (Taxable) (the "Reassessment 2005B Bonds," and together with the Reassessment 2005A Bonds, the "Reassessment Bonds") and approve the execution and delivery of certain documents in connection with such issuance; and

WHEREAS, the City anticipates that the Reassessment Bonds, upon issuance, will be sold to the Morgan Hill Financing Authority (the "Authority") pursuant to a Bond Purchase Agreement, to be entered into by and between the City and the Authority; and

WHEREAS, it is anticipated that the Authority will issue bonds (the "Authority Bonds") pursuant to the Marks-Roos Local Bond Pooling Act of 1985 (commencing with Section 6584 of the California Government Code); and

WHEREAS, the sale proceeds of the Authority Bonds will be used for the purchase of the Reassessment Bonds and the Authority Bonds will be secured by payments to be made on the Reassessment Bonds so purchased by the Authority; and

WHEREAS, to effect the refunding of the Prior Bonds, the City proposes to enter into an Escrow Agreement with U.S. Bank National Association, as escrow agent thereunder, substantially in the form presented to the City Council and on file with the City Clerk; and

WHEREAS, pursuant to Section 9614 of the Code, the designated costs of issuance with respect to the refunding contemplated herein may be paid from, among other sources, any legally available funds of the City and other available revenues of the City under the control of the City Council;

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF MORGAN HILL DOES HEREBY RESOLVE, FIND, DECLARE AND ORDER AS FOLLOWS:

Section 1. Recitals. The above recitals, and each of them, are true and correct.

Section 2. Authorization to Issue Bonds. The City Council approves and authorizes the issuance and sale of the Reassessment Bonds, subject to the parameters set forth herein below.

Section 3. Fiscal Agent Agreement. The Fiscal Agent Agreement (the "Fiscal Agent Agreement"), proposed to be entered into by and between the City and the Fiscal Agent (defined in Section 4 below), in the form presented at this meeting and on file with the City Clerk of the City (the "City Clerk"), is hereby approved. Subject to Section 7 below, the Mayor or the Mayor Pro Tempore in the Mayor's absence, or the City Manager (each, an "Authorized Officer"), acting singly, is hereby authorized and directed, for and in the name and on behalf of the City, to

execute and deliver the Fiscal Agent Agreement in substantially said form, with such additions or changes as the Authorized Officer executing the same may approve (such approval to be conclusively evidenced by such Authorized Officer's execution and delivery thereof).

Section 4. Appointment of Fiscal Agent. The appointment of The Bank of New York Trust Company, N.A., as fiscal agent (the "Fiscal Agent") under the Fiscal Agent Agreement is hereby approved.

Section 5. Escrow Agreement. The Escrow Agreement (the "Escrow Agreement"), proposed to be entered into by and between the City and U.S. Bank National Association, as escrow agent thereunder (the "Escrow Agent"), in the form presented at this meeting and on file with the City Clerk, is hereby approved. Each Authorized Officer, acting singly, is hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver the Escrow Agreement in substantially said form, with such additions or changes as the Authorized Officer executing the same may approve (such approval to be conclusively evidenced by such Authorized Officer's execution and delivery thereof).

Section 6. Bond Purchase Agreement. The Bond Purchase Agreement (the "Purchase Agreement") proposed to be entered into by and between the City and the Authority, in the form presented at this meeting and on file with the City Clerk, is hereby approved. Subject to Section 7 below, each Authorized Officer, acting singly, is hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver the Purchase Agreement in substantially said form, with such additions or changes as the Authorized Officer executing the same may approve (such approval to be conclusively evidenced by such Authorized Officer's execution and delivery thereof).

Section 7. Terms of Sale of Reassessment Bonds. Each Authorized Officer, acting singly, is hereby authorized and directed to act on behalf of the City to establish and determine (i) the principal amounts of the Reassessment 2005A Bonds and the Reassessment 2005B Bonds which, in the aggregate, shall be less than \$10,600,000; (ii) the purchase price of the Reassessment Bonds and the interest rates thereon; and (iii) the final maturity date of the Reassessment Bonds, which shall not be later than the scheduled final maturity date of the Prior Bonds. In compliance with Section 6592.5 of the California Government Code, in no event shall the Bonds be sold to the Authority at a price to yield in excess of one percent of the yield of the Authority Bonds (with "yield" to be calculated according to said Section 6592.5 of the California Government Code). The authorization and powers delegated to the Authorized Officers by this Section 7 shall be valid for a period of 180 days from the date of adoption of this Resolution.

Section 8. Preliminary Official Statement. The Preliminary Official Statement to be prepared in connection with the proposed public offering of the Authority Bonds (the "Preliminary Official Statement"), in the form presented at this meeting and on file with the City Clerk, is hereby approved. Each Authorized Officer, acting singly, is hereby authorized and directed, for and in the name and on behalf of the City, to cause the Preliminary Official Statement in substantially said form, with such additions or changes therein as such Authorized Officer may approve, to be deemed final for the purposes of Rule 15c2-12 of the Securities and Exchange Act of 1934. The distribution by the Underwriter of copies of the Preliminary Official Statement to potential purchasers of the Authority Bonds is hereby approved.

Section 9. Official Statement. Each Authorized Officer, acting singly, is hereby authorized and directed, for and in the name and on behalf of the City, to cause the Preliminary Official Statement to be brought into the form of a final Official Statement (the “Official Statement”), and to execute the same for and in the name and on behalf of the City, with such additions or changes therein as such Authorized Officer may approve (such approval to be conclusively evidenced by such Authorized Officer’s execution and delivery thereof). The distribution and use of the Official Statement by the Underwriter in connection with the sale of the Authority Bonds is hereby approved.

Section 10. Continuing Disclosure Agreement. The Continuing Disclosure Agreement (the “Continuing Disclosure Agreement”) relating to the Authority Bonds, proposed to be entered into by and among the City, NBS Government Finance Group, as Dissemination Agent, The Bank of New York Trust Company, N.A., as Trustee, and Toeniskoetter & Breeding, Inc. Development, in the form presented at this meeting and on file with the City Clerk, is hereby approved. Each Authorized Officer, acting singly, is hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver the Continuing Disclosure Agreement in substantially said form, with such additions or changes therein as the Authorized Officer executing the same may approve (such approval to be conclusively evidenced by such Authorized Officer’s execution and delivery thereof).

Section 11. Designated Costs of Issuance; Reserve Account. The City Council hereby designates all of the items listed in paragraphs (1) through (5) of Section 9600(a) of the Code to be costs of issuance with respect to the refunding contemplated herein, specifically:

- (1) All expenses incident to the calling, retiring, or paying of the Prior Bonds and to the issuance of the Reassessment Bonds, including, but not limited to, any bond counsel, financial consultants, underwriters, certified public accountants, and rating agency fees, printing and advertising costs, city administrative expenses, and the charges of any escrow agent or trustee in connection with the issuance of the Reassessment Bonds or in connection with the redemption or retirement of the Prior Bonds;
- (2) Interest upon the Reassessment Bonds from the September 2 next preceding the date of sale thereof to not later than the September 2 next succeeding two years from the date;
- (3) Any accrued and unpaid interest on the Prior Bonds;
- (4) Any premium necessary in the calling or retiring of the Prior Bonds; and
- (5) Any amount that the City pays or transfers, or has previously paid or transferred, either from a special reserve fund or from surplus funds, into the redemption fund securing the Prior Bonds and the penalties and interest thereon, if the amounts and the penalties and interest thereon are included in and limited to the particular reassessments levied upon those subdivisions of land securing the original assessment installments which are delinquent and for which the payments or transfers are made.

In the event that a debt service reserve account (the "Reserve Account") is to be established under the indenture for the Authority Bonds, the funding of the Reserve Account shall be an expense incidental to the refunding contemplated herein. The officers of the City are hereby authorized and directed to apply assessment installments paid or to be paid by owners of property in the District during fiscal year 2004-05 (the "2004-05 Assessments") as follows: (i) first, transfer all 2004-05 Assessments received by the City before the issuance date of the Reassessment Bonds to the Escrow Agent for application toward the redemption of the Prior Bonds, and (ii) second, transfer the remainder of the 2004-05 Assessments to the Fiscal Agent to pay interest on the Reassessment Bonds coming due on or before September 2, 2006.

Section 12. Authority Bond Purchase Contract. The Bond Purchase Contract (the "Authority Bond Purchase Contract") proposed to be entered into by and among the Authority, the City and Piper Jaffray & Co, as the Underwriter, in the form presented at this meeting and on file with the City Clerk, is hereby approved. Each Authorized Officer, acting singly, is hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver the Authority Bond Purchase Contract in substantially said form, with such additions or changes as the Authorized Officer executing the same may approve (such approval to be conclusively evidenced by such Authorized Officer's execution and delivery thereof).

Section 13. Other Acts. The officers of the City are hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all documents which they may deem necessary or advisable in order to effectuate the purposes of this Resolution, the Fiscal Agent Agreement, the Escrow Agreement, the Purchase Agreement, the Continuing Disclosure Agreement and the Authority Bond Purchase Contract and to assist the Authority with respect to the issuance and sale of the Authority Bonds, and any such actions previously taken by such officers are hereby ratified and confirmed.

Section 14. Effective Date. This Resolution shall take effect immediately upon adoption.

PASSED AND ADOPTED by the City Council of the City of Morgan Hill at a regular meeting held on the 26th day of January, 2005, by the following vote:

AYES: COUNCIL MEMBERS:

NOES: COUNCIL MEMBERS:

ABSTAIN: COUNCIL MEMBERS:

ABSENT: COUNCIL MEMBERS:

Mayor

ATTEST:

City Clerk

NEW ISSUE – BOOK ENTRY ONLY

NO RATING

In the opinion of Richards, Watson & Gershon, A Professional Corporation, Los Angeles, California, Bond Counsel, based on existing law and assuming compliance with certain covenants set forth in the documents pertaining to the Series 2005A Bonds and requirements of the Internal Revenue Code of 1986, as amended (the "Code"), as described herein, interest on the Series 2005A Bonds is not included in gross income of the owners thereof for federal income tax purposes. In the opinion of Bond Counsel, interest on the Series 2005A Bonds is not treated as an item of tax preference for the purposes of the federal alternative minimum tax imposed on individuals and corporations. Interest on the Series 2005A Bonds may be subject to certain federal taxes imposed on corporations, including the corporate alternative minimum tax on a portion of that interest. It is not the intent of the Authority that interest on the Series 2005B Bonds be exempt for federal income tax purposes and Bond Counsel expresses no opinion whether such interest is excluded from gross income of the owners of Series 2005B Bonds for federal income tax purposes. In the further opinion of Bond Counsel, interest on both the Series 2005A Bonds and the Series 2005B Bonds is exempt from personal income taxes imposed by the State of California. See "TAX MATTERS" herein.

\$ _____*
MORGAN HILL FINANCING AUTHORITY
REASSESSMENT REVENUE BONDS
SERIES 2005A
(MADRONE BUSINESS PARK)

\$ _____*
MORGAN HILL FINANCING AUTHORITY
REASSESSMENT REVENUE BONDS
SERIES 2005B (MADRONE BUSINESS PARK)
(TAXABLE)

Dated: Date of Delivery

Due: September 2, as shown on inside cover

The Morgan Hill Financing Authority (the "Authority") will issue its Reassessment Revenue Bonds, Series 2005A (Madrone Business Park) (the "Series 2005A Bonds") and Reassessment Revenue Bonds, Series 2005B (Madrone Business Park) (Taxable) (the "Series 2005B Bonds," and together with the Series 2005A Bonds, the "Bonds") under an Indenture of Trust, dated as of February 1, 2005 (the "Indenture"), by and between the Authority and The Bank of New York Trust Company, N.A., as Trustee. Proceeds from the sale of the Bonds will be used to (i) with respect to the proceeds of the Series 2005A Bonds, acquire the Reassessment 2005A Bonds (defined below) from the City of Morgan Hill (the "City"), and with respect to the proceeds of the Series 2005B Bonds, acquire the Reassessment 2005B Bonds (defined below) from the City, (ii) fund a reserve account for the Bonds, and (iii) pay costs of issuance relating to the Bonds.

The Bonds will be payable solely from and secured by Revenues and certain funds and accounts held under the Indenture. Revenues consist primarily of debt service payments by the City with respect to its Assessment District No. 2000-1 (Madrone Business Park) Limited Obligation Refunding Improvement Bonds, Series 2005A (the "Reassessment 2005A Bonds") and its Assessment District No. 2000-1 (Madrone Business Park) Limited Obligation Refunding Improvement Bonds, Series 2005B (Taxable) (the "Reassessment 2005B Bonds," and together with the Reassessment 2005A Bonds, the "Reassessment Bonds"). The Reassessment Bonds will be issued pursuant to a Fiscal Agent Agreement, dated as of February 1, 2005 (the "Fiscal Agent Agreement"), by and between the City and The Bank of New York Trust Company, N.A., as Fiscal Agent. The Reassessment Bonds will be payable solely from and secured by Reassessment Revenues, consisting primarily of unpaid reassessments (the "Reassessments") to be levied on the parcels in the City's Assessment District No. 2000-1 (Madrone Business Park) (the "District"), and certain funds and accounts held under the Fiscal Agent Agreement. Proceeds from the sale of the Reassessment Bonds will be used to refund bonds previously issued by the City to finance the acquisition, construction and installation of certain public infrastructure improvements for the District.

The Bonds will be issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Bonds. Individual purchases of the Bonds may be made in book-entry form only, in denominations of \$5,000 each or any integral multiple thereof. Purchasers will not receive certificates representing their interest in the Bonds purchased. Principal of, and premium, if any, and interest on the Bonds will be paid directly to DTC by the Trustee. Principal of the Bonds is payable on the dates set forth on the inside cover. Interest on the Bonds will be payable on March 2 and September 2 of each year, commencing September 2, 2005. Upon its receipt of payments of principal, premium, if any, and interest, DTC is in turn obligated to remit such principal, premium, if any, and interest to DTC participants for subsequent disbursement to the beneficial owners of the Bonds as described herein.

The Bonds are subject to optional, mandatory and extraordinary mandatory redemption prior to their maturity as described herein.

THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM AND SECURED BY A PLEDGE OF REVENUES AND CERTAIN FUNDS AND ACCOUNTS HELD UNDER THE INDENTURE. THE AUTHORITY HAS NO TAXING POWER. THE REASSESSMENT BONDS ARE LIMITED OBLIGATIONS OF THE CITY, PAYABLE SOLELY FROM REASSESSMENT REVENUES AND CERTAIN FUNDS AND ACCOUNTS HELD UNDER THE FISCAL AGENT AGREEMENT. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE OF CALIFORNIA, OR ANY OF ITS POLITICAL SUBDIVISIONS IS PLEDGED TO THE PAYMENT OF THE BONDS OR THE REASSESSMENT BONDS. THE CITY HAS DETERMINED THAT IT WILL NOT OBLIGATE ITSELF TO ADVANCE FUNDS FROM ITS TREASURY TO COVER ANY DELINQUENCY ON THE REASSESSMENT BONDS.

See the section of this Official Statement entitled "BONDOWNERS' RISKS" for a discussion of certain risk factors that should be considered, in addition to other matters set forth herein, in evaluating the investment quality of the Bonds. This cover page contains information for quick reference only. It is not a summary of this issue. Potential purchasers must read the entire Official Statement to obtain information essential to making an informed investment decision.

The Bonds are offered when, as and if issued, subject to the approval as to their legality by Richards, Watson & Gershon, A Professional Corporation, Los Angeles, California, Bond Counsel. Certain legal matters will also be passed on for the Authority by Richards, Watson & Gershon, as Disclosure Counsel. It is anticipated that the Bonds will be available for delivery in book-entry form through the facilities of DTC on or about February __, 2005.

[PIPER JAFFRAY LOGO]

Dated: _____, 2004

MATURITY SCHEDULE

SERIES 2005A BONDS

\$ _____ Serial Bonds

<u>Maturity Date (Sept. 2)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP[†] ()</u>	<u>Maturity Date (Sept. 2)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP[†] ()</u>
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\$ _____ % Term Bonds due September 2, 20__ Yield: ____ % CUSIP[†] _____
\$ _____ % Term Bonds due September 2, 20__ Yield: ____ % CUSIP[†] _____

SERIES 2005B BONDS

\$ _____ Serial Bonds

<u>Maturity Date (Sept. 2)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP[†] ()</u>	<u>Maturity Date (Sept. 2)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP[†] ()</u>
--	-----------------------------	--------------------------	--------------	----------------------------------	--	-----------------------------	--------------------------	--------------	----------------------------------

\$ _____ % Term Bonds due September 2, 20__ Yield: ____ % CUSIP[†] _____
\$ _____ % Term Bonds due September 2, 20__ Yield: ____ % CUSIP[†] _____

[†] CUSIP Copyright 2005 American Bankers' Association. CUSIP data herein is provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. None of the Authority, the City nor the Underwriter guarantees the accuracy of the CUSIP data.

**CITY OF MORGAN HILL
COUNTY OF SANTA CLARA, CALIFORNIA**

CITY COUNCIL

Dennis Kennedy, *Mayor*
Steve Tate, *Mayor Pro Tem*
Larry Carr, *Council Member*
Mark Grzan, *Council Member*
Greg Sellers, *Council Member*

CITY OFFICIALS AND STAFF

J. Edward Tewes, *City Manager*
Michael J. Roorda, *City Treasurer*
Helene Leichter, *City Attorney*
Irma Torrez, *City Clerk*
Jack Dilles, *Director of Finance*
[Kathleen Molloy], *Director of Planning*
James Ashcraft, *Director of Public Works*

MORGAN HILL FINANCING AUTHORITY

AUTHORITY COMMISSION

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Mark Grzan, *Member*
Greg Sellers, *Member*

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Financial Advisor

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San Francisco, California

Verification Agent

[to come]

No dealer, broker, salesperson or other person has been authorized by the Authority or the City to give any information or to make any representation other than those contained herein. If given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy any Bonds by any person in any jurisdiction in which such offer of solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful for such person to make such an offer, solicitation or sale. This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matter of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of fact.

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements.” Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “budget,” or other similar words and include, but are not limited to, statements under the captions “THE DISTRICT” and “THE TBI AFFILIATES AND TBI DEVELOPMENT; PLAN FOR FURTHER DEVELOPMENT IN THE DISTRICT.” The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. While the City has agreed to provide certain on-going financial and other data pursuant to a Continuing Disclosure Agreement (see “CONTINUING DISCLOSURE”), neither the Authority nor the City plans to issue any updates or revisions to those forward-looking statements if or when their expectations or events, conditions or circumstances on which such statements are based change.

The information set forth herein has been obtained from the Authority, the City and other sources that are believed to be reliable, but it is not guaranteed as to its accuracy or completeness. The information and expressions of opinions herein are subject to change without notice, and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the City since the date hereof. All summaries of the resolutions, the Indenture, laws and statutes or other documents are made subject to the provisions of such documents, respectively, and do not purport to be complete statements of any or all of such provisions.

The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

The Bonds have not been registered under the Securities Act of 1933, as amended, nor has the Indenture been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon an exception from the registration requirements contained in such acts. The Bonds have not been registered or qualified under the securities laws of any state.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SECURITIES OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE UNDERWRITER MAY OFFER AND SELL BONDS TO CERTAIN DEALERS AND OTHERS AT A PRICE LOWER THAN THE OFFERING PRICE. THE OFFERING PRICE MAY BE CHANGED FROM TIME TO TIME BY THE ORIGINAL PURCHASERS.

PIPER JAFFRAY & CO. SINCE 1895. MEMBER SIPC AND NYSE.

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[insert area map]

\$ _____ *

**MORGAN HILL FINANCING AUTHORITY
REASSESSMENT REVENUE BONDS
SERIES 2005A
(MADRONE BUSINESS PARK)**

\$ _____ *

**MORGAN HILL FINANCING AUTHORITY
REASSESSMENT REVENUE BONDS
SERIES 2005B
(MADRONE BUSINESS PARK)
(TAXABLE)**

INTRODUCTION

This introduction does not purport to be complete, and reference is made to the body of this Official Statement, appendices and the documents referred to herein for more complete information with respect to matters concerning the Bonds. Potential investors are encouraged to read the entire Official Statement.

General

This Official Statement, including the cover page, inside cover and appendices hereto, is provided to furnish information in connection with the sale by the Morgan Hill Financing Authority (the "Authority") of its \$ _____ * aggregate principal amount of Reassessment Revenue Bonds, Series 2005A (Madrone Business Park) (the "Series 2005A Bonds") and \$ _____ * aggregate principal amount of Reassessment Revenue Bonds, Series 2005B (Madrone Business Park) (Taxable) (the "Series 2005B Bonds," and together with the Series 2005A Bonds, the "Bonds").

The Bonds are being issued pursuant to (i) the provisions relating to the joint exercise of powers found in Chapter 5 of Division 7 of Title 1 of the California Government Code, including the provisions of the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 thereof (the "Bond Law"), (ii) Resolution No. ____-MHFA, adopted by the governing body of the Authority on _____, 2005, and (iii) an Indenture of Trust, dated as of February 1, 2005 (the "Indenture"), by and between the Authority and The Bank of New York Trust Company, N.A., as the trustee for the Bonds (the "Trustee"). Proceeds from the sale of the Bonds will be used to (A) with respect to proceeds of the Series 2005A Bonds, acquire from the City of Morgan Hill (the "City") all of the City's \$ _____ * aggregate principal amount of Assessment District No. 2000-1 (Madrone Business Park) Limited Obligation Refunding Improvement Bonds, Series 2005A (the "Reassessment 2005A Bonds") and, with respect to proceeds of the Series 2005B Bonds, acquire from the City all of the City's \$ _____ * aggregate principal amount of Assessment District No. 2000-1 (Madrone Business Park) Limited Obligation Refunding Improvement Bonds, Series 2005B (Taxable) (the "Reassessment 2005B Bonds," and together with the Reassessment 2005A Bonds, the "Reassessment Bonds"), (B) fund a reserve account for the Bonds, and (C) pay costs of issuance relating to the Bonds. The Bonds are payable solely from and secured by a pledge of Revenues (defined below, see "SECURITY FOR THE BONDS – Application of Revenues under the Indenture") and moneys in certain funds and accounts held under the Indenture. Revenues consist primarily of debt service payments to be made by the City with respect to the Reassessment Bonds.

The Reassessment Bonds are being issued pursuant to (i) the Refunding Act of 1984 for 1915 Improvement Act Bonds, found in Division 11.5 of the California Streets and Highways Code (the "Refunding Act"), (ii) Resolution Nos. _____, _____ and _____, adopted by the City Council of the City on _____, 2005, and (iii) a Fiscal Agent Agreement, dated as of February 1, 2005 (the "Fiscal Agent Agreement"), by and between the City and The Bank of New York Trust Company, N.A., as the

* Preliminary; subject to change.

fiscal agent (the “Fiscal Agent”). The Reassessment Bonds are payable solely from and secured by a pledge of Reassessment Revenues (defined below, see “SECURITY FOR THE BONDS – Application of Reassessment Revenues under the Fiscal Agent Agreement”) and certain funds and accounts held under the Fiscal Agent Agreement. Reassessment Revenues consist primarily of unpaid reassessments (“Reassessments”) to be levied on parcels within the City’s Assessment District No. 2000-1 (Madrone Business Park) (the “District”) pursuant to the Municipal Improvement Act of 1913, found in Division 12 of the California Streets and Highway Code (the “1913 Act”),

Interest on the Bonds is payable on March 2 and September 2 of each year, commencing September 2, 2005. The Bonds will mature in the amounts and on the dates and bear interest at rates shown on the inside cover of this Official Statement.

The Bonds will be issued in fully registered form only and, when issued and delivered, will be registered in the name of Cede & Co., as nominee of the Depository Trust Company, New York, New York (“DTC”). DTC will act as the depository for the Bonds and all payments due on the Bonds will be made to Cede & Co. Ownership interests in the Bonds may be purchased only in book-entry form. See “THE BONDS – Book-Entry Only System” and “APPENDIX F – DTC’S BOOK-ENTRY ONLY SYSTEM.”

Purpose of Financing

Proceeds from the sale of the Series 2005A Bonds will be used to acquire the Reassessment 2005A Bonds. Proceeds from the sale of the Series 2005B Bonds will be used to acquire the Reassessment 2005B Bonds. The Reassessment Bonds are being issued to effect a refunding of all of the City’s remaining outstanding Limited Obligation Improvement Bonds Assessment District No. 2000-1 (Madrone Business Park) Series A 2000 (the “Prior 2000A Bonds”) and all of the City’s remaining outstanding Limited Obligation Improvement Bonds Assessment District No. 2000-1 (Madrone Business Park) Series B 2000 (Taxable) (the “Prior 2000B Bonds,” and together with the Prior 2000A Bonds, the “Prior Bonds”). The payment and redemption price of the Prior Bonds will be funded from three sources: (i) proceeds from the sale of the Reassessment Bonds, (ii) moneys remaining in the funds and accounts relating to the Prior Bonds, and (iii) a portion of the assessments paid by the owners of property in the District during fiscal year 2004-05 (“2004-05 Assessments”). The Prior Bonds were originally issued pursuant to the Improvement Bond Act of 1915, found in Division 10 of the California Highway and Safety Code (the “1915 Act”), to pay amounts necessary to finance the acquisition, construction and installation of certain public infrastructure improvements for the District. See “PLAN OF REFUNDING.”

Security for the Bonds

The Bonds are limited obligations of the Authority payable solely from and secured by a pledge of Revenues and moneys in certain funds and accounts held by the Trustee pursuant to the Indenture. Revenues consist of, primarily, debt service payments to be made by the City with respect to the Reassessment Bonds. The Reassessment Bonds are payable solely from and secured by Reassessment Revenues and certain funds and accounts held by the Fiscal Agent under the Fiscal Agent Agreement. Reassessment Revenues consist primarily of Reassessments and also include a portion of the 2004-05 Assessments. Pursuant to the Indenture, the Authority has assigned to the Trustee, for the benefit of the Owners of the Bonds, all of the Authority’s rights, title and interest in the Reassessment Bonds. All Revenues to be received by the Trustee from the City as principal and interest payments, and redemption premium, if any, with respect to the Reassessment Bonds are to be deposited in the Revenue Fund and the various accounts therein (including the Principal Account, the Interest Account, the Redemption Account and the Reserve Account) in accordance to the Indenture.

A Reserve Account will be established and maintained by the Trustee pursuant to the Indenture. Upon issuance of the Bonds, the Trustee will deposit \$ _____ * from the sale proceeds of the Bonds into the Reserve Account. Such amount is equal to the initial Reserve Requirement (defined below, see “SECURITY FOR THE BONDS – Reserve Account”).

Scheduled debt service payments on the Reassessment Bonds are calculated to be sufficient to permit the Authority to pay the principal of, and interest on, the Bonds when due. However, no assurance can be given that each owner of the parcels subject to Reassessment liens will pay Reassessment installments on a timely basis or in sufficient amounts. The Reassessments do not constitute a personal indebtedness of owners of the respective parcels in the District. In the event of delinquency, a foreclosure proceeding may be conducted against the real property securing the delinquent Reassessments. There is no guarantee that such a proceeding will result in the full collection of the delinquent Reassessments. As permitted by the provisions of the 1915 Act, the City has determined that it will not obligate itself to advance funds from its treasury to cover any delinquency on the Reassessment Bonds. Furthermore, pursuant to the 1915 Act, a property owner may elect to prepay the Reassessments on a parcel, in part or in full, prior to the maturity of the Reassessment Bonds. Proceeds from such prepayment will be used to redeem Reassessment Bonds in accordance with the Fiscal Agent Agreement. A redemption of the Reassessment Bonds prior to maturity will correspondingly trigger an extraordinary mandatory redemption of the Bonds under the Indenture. Pursuant to the Indenture, in the event that Revenues on deposit in the Interest Account, Principal Account or the Redemption Account (but, with respect to the Redemption Account, only in connection with an extraordinary mandatory redemption of the Bonds upon a redemption of the Reassessment Bonds) are insufficient to pay the interest, principal or redemption premium with respect to the Bonds when due, the Trustee may transfer money from the Reserve Account to make up for such deficiency.

THE BONDS ARE NOT GENERAL OBLIGATIONS OF THE AUTHORITY OR THE CITY. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE OF CALIFORNIA (THE “STATE”), OR ANY OF ITS POLITICAL SUBDIVISIONS IS PLEDGED TO THE PAYMENT OF THE BONDS OR THE REASSESSMENT BONDS. THE AUTHORITY HAS NO TAXING POWER.

See “SECURITY FOR THE BONDS,” “THE DISTRICT” and “BONDOWNERS’ RISKS.”

The City

The City is located in Santa Clara County (the “County”), California, against the foothills of the Coastal Ranges near the southern end of the Santa Clara Valley. The City lies about 70 miles south of San Francisco and 20 miles south of San Jose, and sits cradled in a long narrow valley floor between the Santa Cruz Mountains on the west and Mount Hamilton Range on the east. The City is a general law city and operates under a Council/Manager form of government. The five members of the City Council, including the Mayor, are elected at large. From approximately 5,600 residents in 1970, the City has grown to a population of approximately 35,500 as of January 1, 2004, according to State of California Department of Finance estimates. See “APPENDIX A – SUPPLEMENTAL INFORMATION ON THE CITY OF MORGAN HILL” for more general information about the City.

* Preliminary; subject to change.

The District

The District was created in March 2000 after proceedings pursuant to the 1913 Act were conducted by the City. In July 2000, the City issued the Prior Bonds to provide financing for the acquisition, construction and installation of certain public infrastructure improvements for the District. Such improvements were completed as of February 2003. As of January 1, 2005, there were 20 parcels in the District, totaling approximately 89.53 net acres, subject to the assessments relating to the Prior Bonds. Land in the District is primarily zoned for commercial or light industrial uses and planned unit development. Eleven parcels in the District have been fully developed, while nine remain to be undeveloped property. The District is located in the north side of the City, at the northwest corner of the U.S. Highway 101 and Cochrane Road interchange. See “THE DISTRICT” for a more detailed description of the District.

Thirteen of the 20 parcels in the District are currently owned by either affiliates of Toeniskoetter & Breeding, Inc. Development (“TBI Development”), the major developer of the District, or Madrone Land Corporation. These 13 parcels represent approximately 75 percent of the District by acreage and approximately ____* percent of the estimated total Reassessment lien on properties in the District. Ten of such parcels (including six developed parcels and four undeveloped parcels) are owned by TBI-Mission West LLC, TBI-Mission West II LLC or TBI-Madrone I LLC (collectively, the “TBI Affiliates”), all of which are partially-owned subsidiaries of TBI Development. TBI Affiliates’ ten parcels represent approximately ____* percent of the estimated total Reassessment lien. Three undeveloped parcels in the District, representing approximately ____* percent of the estimated total Reassessment lien, are owned by Madrone Land Corporation. Madrone Land Corporation has entered into an agreement with TBI Development to for TBI Development to develop one of such parcels. Madrone Land Corporation has an ownership interest in TBI-Madrone I LLC. See “THE DISTRICT – Property Ownership and Development Status” and “THE TBI AFFILIATES AND TBI DEVELOPMENT; PLAN FOR FURTHER DEVELOPMENT IN THE DISTRICT.”

In connection with valuing the property in the District for the purposes of this Official Statement, the City has compiled two sources of information: (i) for seven of the undeveloped parcels that are owned by either an TBI Affiliate or Madrone Land Corporation, the City has ordered the preparation of an Appraisal Report, dated _____, 2005 (the “Appraisal”), by Carneghi-Blum & Partners, Inc. (the “Appraiser”), and (ii) for the remaining parcels in the District, the City has obtained the 2004-05 County assessed valuation of such property. As set forth in the Appraisal, the Appraiser estimates the aggregate market value of the appraised parcels at January ___, 2005 to be \$_____. The aggregate assessed value for the remaining parcels, according to the 2004-05 County tax roll is \$94,444,328. Based on these figures, the City estimates that the overall value-to-Reassessment lien ratio for the property in the District will be ____:1 upon issuance of the Reassessment Bonds. See “THE DISTRICT – Valuation of Property in the District” and “– Estimated Value-to-Reassessment Lien Ratios” and “APPENDIX C – APPRAISAL FOR SELECTED PARCELS IN THE DISTRICT.”

Professionals Involved in the Offering

The Bank of New York Trust Company, N.A., Los Angeles, California, will act as Trustee with respect to the Bonds and as Fiscal Agent with respect to the Reassessment Bonds. U.S. Bank National Association will act as Escrow Agent with respect to the refunding of the Prior Bonds.

NBS Government Finance Group, Temecula, California (“NBS”), has acted as Reassessment Engineer to the City. NBS has prepared a preliminary report, and will prepare a final report, in

* Preliminary; subject to change.

connection with the issuance of the Reassessment Bonds. A copy of the preliminary report dated January 2005, is set forth in Appendix B. Carneghi-Blum & Partners, Inc. has prepared the Appraisal with respect to certain undeveloped parcels in the District. A copy of the Appraisal is set forth in Appendix C.

RBC Dain Rauscher Inc., San Francisco, California, has served as Financial Advisor to the Authority and the City in connection with the Bonds and the Reassessment Bonds and has assisted the Authority and the City in structuring the Bonds and the Reassessment Bonds.

All proceedings in connection with the issuance of the Bonds are subject to the approval of Richards, Watson & Gershon, A Professional Corporation, Los Angeles, California, Bond Counsel. Certain legal matters will also be passed on for the Authority by Richards, Watson & Gershon, as Disclosure Counsel. The fees and expenses of the Financial Advisor, Bond Counsel and Disclosure Counsel are contingent upon the sale and delivery of the Bonds.

Continuing Disclosure

The City will covenant in a Continuing Disclosure Agreement (the “Continuing Disclosure Agreement”) to prepare and deliver an annual report (the “Annual Report”) to certain national and state repositories and to provide certain other information. TBI Development will be a party to the Continuing Disclosure Agreement. Pursuant to the Continuing Disclosure Agreement, so long as the Bonds remain Outstanding, TBI Development will provide certain information each year for inclusion in the City’s Annual Report; provided that TBI Development’s obligation to provide such information will terminate upon the earlier occurrence of the following: (i) Affiliates (as defined in the Continuing Disclosure Agreement) of TBI Development (including TBI Development, if applicable) collectively own less than 25 percent of the land, by area, in the District, or (ii) all Reassessments attributable to property owned by Affiliates of TBI Development have been prepaid in full. See “CONTINUING DISCLOSURE” and “APPENDIX G – FORM OF CONTINUING DISCLOSURE AGREEMENT.”

Summaries of Documents

There follows in this Official Statement descriptions of the Bonds, the Indenture, the Reassessment Bonds, the Fiscal Agent Agreement, the Authority, the City, the District and various other agreements and documents. The descriptions and summaries of documents herein do not purport to be comprehensive or definitive, and reference is made to each such document for the complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each such document and, with respect to certain rights and remedies, to laws and principles of equity relating to or affecting creditors’ rights generally. Capitalized terms not defined herein shall have the meanings set forth in the Indenture. Copies of the Indenture and the Fiscal Agent Agreement are available for inspection during business hours at the corporate trust office of the Trustee in Los Angeles, California.

Other Information

This Official Statement speaks only as of its date as set forth on the cover hereof, and the information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Authority, the City or the District since the date hereof.

Unless otherwise expressly noted, all references to Internet websites in this Official Statement are shown for reference and convenience only, and none of their content is incorporated herein by reference. The information contained within such websites has not been reviewed by the Authority or the City and neither the Authority nor the City makes any representation regarding the information therein.

PLAN OF REFUNDING

The Bonds are being sold by the Authority to assist the City in the refunding of the Prior Bonds. Proceeds from the sale of the Series 2005A Bonds will be used to acquire the Reassessment 2005A Bonds from the City. Proceeds from the sale of the Series 2005B Bonds will be used to acquire the Reassessment 2005B Bonds. Sale proceeds of the Reassessment Bonds will be used to refund the Prior Bonds. The Prior Bonds were issued to finance the acquisition, construction and installation of certain public infrastructure improvements for the streets, utilities facilities, water distribution system, sewer system, storm drainage and landscaping of the District. All of such improvements were completed as of February 2003. As of January 1, 2005, the remaining outstanding principal amount of the Prior 2000A Bonds was \$8,620,000 and the remaining outstanding principal amount of the Prior 2000B Bonds was \$1,440,000.

To effect the refunding, proceeds of the Reassessment Bonds, along with moneys to be transferred from the funds and accounts of the Prior Bonds and an amount representing the 2004-05 Assessments received by the City before the issuance date of the Reassessment Bonds, will be deposited in an escrow fund (the "Escrow Fund") established under the Escrow Agreement, dated as of February 1, 2005 (the "Escrow Agreement"), by and between the City and U.S. Bank National Association, as Escrow Agent. A portion of the moneys deposited into the Escrow Fund will be used to purchase direct obligations of the United States of America (the "Escrow Securities"). The Escrow Agent will apply the Escrow Securities and cash held in the Escrow Fund pursuant to the Escrow Agreement and the fiscal agent agreement for the Prior Bonds, for the sole benefit of the holders of the Prior Bonds. Neither the maturing principal of the Escrow Securities nor the interest to be earned thereon will serve as security or be available for payment of principal of or interest or premium, if any, on the Reassessment Bonds or the Bonds. The City will irrevocably direct the Escrow Agent to redeem and pay all of the Prior Bonds on the earliest available call date after the issuance of the Bonds, which is September 2, 2005. On such date, moneys deposited in the Escrow Fund will be used to pay the principal and interest payments then due and the redemption price for the Prior Bonds.

SOURCES AND USES OF FUNDS

The following table shows the estimated sources and uses of the sale proceeds from the sale of the Bonds and certain other funds:

Sources:

Par amount of Series 2005A Bonds	*
Par amount of Series 2005B Bonds	*
[Plus/Less]: Original issue [discount/premium]	
Less: Underwriter's discount	

Total Sources

Uses:

Purchase of Reassessment 2005A Bonds
Purchase of Reassessment 2005B Bonds
Cost of Issuance ⁽¹⁾
Reserve Account ⁽²⁾

Total Uses

-
- (1) Costs of Issuance include fees and expenses for Bond Counsel, Disclosure Counsel, Financial Advisor, Reassessment Engineer, Appraiser, Trustee, Fiscal Agent and Escrow Agent, printing expenses, and other costs.
- (2) Total deposit in Reserve Account equals initial Reserve Requirement. See "SECURITY FOR THE BONDS – Reserve Account."

The following table shows the estimated sources and uses of the proceeds from the sale of the Reassessment Bonds and money to be transferred from the funds and accounts of the Prior Bonds:

Sources:

Net proceeds from the Authority ⁽¹⁾
Transfer from Refunded 2000A Bonds funds
Transfer from Refunded 2000B Bonds funds
2004-05 Assessments ⁽²⁾

Total Sources

Uses:

Escrow Account for Refunded 2000A Bonds
Escrow Account for Refunded 2000B Bonds

Total Uses

-
- (1) Represents the purchase price of such Reassessment Bonds paid by the Authority, less an amount retained by the Authority to pay for costs of issuance [(including the Reserve Account deposit)].
- (2) Represents 2004-05 Assessments received by the City before issuance date of the Bonds.

* Preliminary; subject to change.

ANNUAL DEBT SERVICE

The following table shows the scheduled annual debt service for the Bonds:

Bond Year Ending September 2	<u>Series 2005A Bonds</u>		<u>Series 2005B Bonds</u>		<u>Total Annual Debt Service</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2005					
2006					
2007					
2008					
2009					
2010					
2011					
2012					
2013					
2014					
2015					
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					
2024					
2025					

See “SECURITY FOR THE BONDS – Debt Service Coverage for the Bonds” for a table showing the debt service coverage between the Reassessment Bonds and the Bonds.

THE BONDS

General

The Bonds will be issued in the aggregate principal amount and will mature on the dates and bear interest at the rates per annum as set forth on the inside cover page of this Official Statement. The Bonds will be issued in authorized denominations of \$5,000 each or integral multiples thereof and will be dated their date of delivery. Interest on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day months and payable on March 2 and September 2 of each year, commencing September 2, 2005 (each an “Interest Payment Date”), until maturity or earlier redemption thereof.

Each Bond will bear interest from the Interest Payment Date next preceding the date of authentication thereof unless (i) it is authenticated during the period from the day after the 15th day of the month immediately preceding from such Interest Payment Date (the “Record Date”) to and including such Interest Payment Date, in which event it will bear interest from such Interest Payment Date, or (ii) it is authenticated on or prior to the Record Date for the first Interest Payment Date, in which event it will bear interest from the Delivery Date; provided, however, that if, at the time of authentication of any Bond, interest with respect to such Bond is in default, such Bond will bear interest from the Interest Payment Date to which interest has been paid or made available for payment.

The Bonds will be initially delivered as one fully registered certificate for each maturity and will be delivered by means of the book-entry system of DTC. See “Book-Entry Only System” below.

Redemption

Optional Redemption.* The Series 2005A Bonds maturing before September 2, 20__ will not be subject to optional redemption. The Series 2005A Bonds maturing on or after September 2, 20__ will be subject to redemption, as a whole or in part, in integral multiples of \$5,000 principal amount, by the Authority from proceeds derived from an optional redemption of the Reassessment 2005A Bonds by the City, on any Interest Payment Date on or after March 2, 20__, at the following respective redemption prices (expressed as a percentage of the principal amount of the Series 2005A Bonds to be redeemed), plus accrued interest thereon to the date of redemption:

<u>Redemption Dates</u>	<u>Redemption Price</u>
March 2, 20__ and September 2, 20__	%
March 2, 20__ and September 2, 20__	
March 2, 20__ and thereafter	

The Series 2005B Bonds maturing before September 2, 20__ will not be subject to optional redemption. The Series 2005B Bonds maturing on or after September 2, 20__ will be subject to redemption, as a whole or in part, in integral multiples of \$5,000 principal amount, by the Authority from proceeds derived from an optional redemption of the Reassessment 2005B Bonds by the City, on any Interest Payment Date on or after March 2, 20__, at the following respective redemption prices (expressed as a percentage of the principal amount of the Series 2005B Bonds to be redeemed), plus accrued interest thereon to the date of redemption:

* Preliminary; subject to change.

<u>Redemption Dates</u>	<u>Redemption Price</u>
March 2, 20__ and September 2, 20__	%
March 2, 20__ and September 2, 20__	
March 2, 20__ and thereafter	

Extraordinary Mandatory Redemption upon Redemption of Reassessment Bonds. The Series 2005A Bonds will be subject to extraordinary mandatory redemption on any Interest Payment Date prior to their respective maturity dates upon redemption of Reassessment 2005A Bonds by the City pursuant to a prepayment of Reassessments. See “SECURITY FOR THE BONDS – Prepayment of Reassessments.” Such redemption may be as a whole or in part, among maturities, provided that the debt service on the Series 2005A Bonds that will remain Outstanding following such redemption will be as close to equal as possible to (but in no event greater than) the debt service on the Reassessment 2005A Bonds which will remain Outstanding after the redemption. In the event of such an extraordinary mandatory redemption, the Series 2005A Bonds will be redeemed at the following respective redemption prices (expressed as a percentage of the principal amount of the Series 2005A Bonds to be redeemed), plus accrued interest thereon to the date of redemption:

<u>Redemption Dates</u>	<u>Redemption Price</u>
Prior to March 2, 2010	103%
March 2, 20__ and September 2, 20__	
March 2, 20__ and September 2, 20__	
March 2, 20__ and thereafter	

The Series 2005B Bonds will be subject to extraordinary mandatory redemption on any Interest Payment Date prior to their respective maturity dates upon redemption of Reassessment 2005B Bonds by the City pursuant to a prepayment of Reassessments. See “SECURITY FOR THE BONDS – Prepayment of Reassessments.” Such redemption may be as a whole or in part, among maturities, provided that the debt service on the Series 2005B Bonds that will remain Outstanding following such redemption will be as close to equal as possible to (but in no event greater than) the debt service on the Reassessment 2005B Bonds which will remain Outstanding after the redemption. In the event of such an extraordinary mandatory redemption, the Series 2005B Bonds will be redeemed at the following respective redemption prices (expressed as a percentage of the principal amount of the Series 2005B Bonds to be redeemed), plus accrued interest thereon to the date of redemption:

<u>Redemption Dates</u>	<u>Redemption Price</u>
Prior to March 2, 20__	%
March 2, 20__ and September 2, 20__	
March 2, 20__ and September 2, 20__	
March 2, 20__ and thereafter	

Mandatory Sinking Fund Redemption. The Series 2005A Bonds maturing on September 2, 20__ and September 2, 20__ will be subject to redemption in part by lot from sinking fund payments made by the Authority, at a redemption price equal to the principal amount thereof to be redeemed with accrued interest thereon to the redemption date, without premium, in the aggregate respective principal amounts and on the respective dates as set forth in the following tables; provided, if some but not all of the term Series 2005A Bonds of a maturity have been redeemed pursuant to an optional redemption or an

extraordinary redemption as described above, all future sinking fund payment with respect to such term Series 2005A Bonds will be reduced, to be allocated among such sinking fund payments on a *pro rata* basis (as nearly as practicable) in integral multiples of \$5,000:

Series 2005A Bonds Maturing on September 2, 20__

<u>Redemption Date</u>	<u>Principal Amount to be Redeemed</u>
------------------------	--

* maturity

Series 2005A Bonds Maturing on September 2, 20__

<u>Redemption Date</u>	<u>Principal Amount to be Redeemed</u>
------------------------	--

* maturity

The Series 2005B Bonds maturing on September 2, 20__ and September 2, 20__ will be subject to redemption in part by lot from sinking fund payments made by the Authority, at a redemption price equal to the principal amount thereof to be redeemed with accrued interest thereon to the redemption date, without premium, in the aggregate respective principal amounts and on the respective dates as set forth in the following tables; provided, if some but not all of the term Series 2005B Bonds of a maturity have been redeemed pursuant to an optional redemption or an extraordinary redemption as described above, all future sinking fund payment with respect to such term Series 2005B Bonds will be reduced, to be allocated among such sinking fund payments on a *pro rata* basis (as nearly as practicable) in integral multiples of \$5,000:

Series 2005B Bonds Maturing on September 2, 20__

<u>Redemption Date</u>	<u>Principal Amount to be Redeemed</u>
------------------------	--

* maturity

Series 2005B Bonds Maturing on September 2, 20__

<u>Redemption Date</u>	<u>Principal Amount to be Redeemed</u>
------------------------	--

* maturity

In lieu of a sinking account redemption as described above, the Trustee may apply amounts in the Principal Account to purchase term Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as may be directed by the Authority, except that the purchase price (exclusive of accrued interest) may not exceed the redemption price then applicable to such term Bonds, as set forth in writing by the Authority; provided, however, that no term Bonds will be so purchased by the Trustee with a settlement date more than 60 days prior to the date on which the Authority would otherwise redeem such term Bonds. The principal amount of any term Bonds so purchased by the Trustee will be credited towards and shall reduce the Principal Account payment otherwise required to be made with respect to such term Bonds on the applicable redemption date.

Notice of Redemption. Notice of redemption will be sent not less than 30 nor more than 60 days prior to the redemption date, to each of the registered owners of the Bonds designated for redemption at their addresses appearing on the Bond registration books of the Trustee. Such notice shall also be given by first class mail, postage prepaid, confirmed facsimile transmission, or overnight delivery service, to each of the Securities Depositories named in the Indenture and to one or more of the Information Services named in the Indenture. Neither failure to receive such notice nor any defect in the notice so mailed will affect the sufficiency of the proceedings for the redemption of any Bonds or the cessation of interest thereon on the redemption date.

Selection of Bonds for Redemption. Whenever provision is made in the Indenture for less than all of the Bonds of any maturity to be redeemed, the Trustee will select the Bonds to be redeemed from all Bonds not previously called for redemption, by lot in any manner which the Trustee in its sole discretion shall deem appropriate under the circumstances. For purposes of such selection, all Bonds will be deemed to be comprised of separate \$5,000 portions and such portions will be treated as separate bonds which may be separately redeemed.

Partial Redemption. In the event only a portion of any Bond is called for redemption, then upon surrender of such Bond, the Authority will execute and the Trustee will authenticate and deliver to the registered Owner thereof, at the expenses of the Authority, a new Bond or Bonds of the same tenor and maturity date, of authorized denominations in aggregate principal amount equal to the unredeemed portion of the Bond to be redeemed.

Effect of Redemption. If notice of redemption has been duly given as aforesaid and money for the payment of the redemption price of the Bonds called for redemption has been duly provided, such Bonds so called will cease to be entitled to any benefit under the Indenture other than the right to receive payment of the redemption price, and no interest shall accrue thereon from and after the redemption date specified in such notice.

Book-Entry Only System

The Bonds will be issued as one fully registered bond without coupons for each maturity of each series and, when issued, will be registered in the name of Cede & Co., as nominee of DTC. DTC will act as securities depository of the Bonds. Individual purchases may be made in book-entry form only, in the principal amount of \$5,000 and integral multiples thereof. Purchasers will not receive certificates representing their interest in the Bonds purchased. Principal and interest will be paid to DTC, which will in turn remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds as described herein. So long as DTC's book-entry system is in effect with respect to the Bonds, notices to Owners of the Bonds by the Authority or the Trustee will be sent to DTC. Notices and communication by DTC to its participants, and then to the beneficial owners of the Bonds, will be

governed by arrangements among them, subject to then effective statutory or regulatory requirements. See “APPENDIX F – DTC’S BOOK-ENTRY ONLY SYSTEM.”

In the event that such book-entry system is discontinued with respect to the Bonds, the Authority will execute and deliver replacements in the form of registered certificates and, thereafter, the Bonds will be transferable and exchangeable on the terms and conditions provided in the Indenture. In addition, the following provisions would then apply: The principal of, and redemption premium, if any, on the Bonds will be payable on the surrender thereof at maturity or the redemption date, as applicable, at the corporate trust office of the Trustee in Los Angeles, California. The interest on the Bonds will be payable by check mailed or draft no later than each Interest Payment Date to the registered owners thereof as shown on the registration books of the Trustee as of the close of business on the Record Date (*i.e.*, 15th day of the month preceding the Interest Payment Date); provided, that a registered owner of \$1,000,000 or more in aggregate principal amount of Bonds of a series may specify in writing prior to the Record Date that the interest payment be made by wire transfer.

SECURITY FOR THE BONDS

General

The Series 2005A Bonds and the Series 2005B Bonds are payable, on a parity, solely from and secured by a pledge of Revenues and moneys in the certain funds and accounts held under the Indenture. Revenues consist, primarily, of debt service payments to be made by the City with respect to the Reassessment Bonds. Pursuant to the Indenture, the Authority has transferred in trust and assigned to the Trustee, for the benefit of Owners of the Bonds, all of the Revenues and all of the Authority’s right, title and interest in the Reassessment Bonds. The Trustee is entitled to and will receive all of the Revenues. The Trustee will be entitled to, and subject to the provisions of the Indenture, will take all steps, actions and proceedings reasonably in its judgment to enforce, either jointly with the Authority or separately, all of the rights of the Authority and all of the obligations of the City with respect to the Reassessment Bonds. The Reassessment Bonds are payable solely from and secured by a pledge of Reassessment Revenues and the certain funds and accounts held under the Fiscal Agent Agreement. Reassessment Revenues consist primarily of Reassessments.

Scheduled debt service payments on the Reassessment Bonds are calculated to be sufficient to permit the Authority to pay the principal of, and interest on, the Bonds when due. As further discussed herein, there are certain circumstances (such as delinquency by property owners) which may cause Revenues received by the Trustee on a particular Interest Payment Date to be less than the amount necessary to pay the principal of, premium, if any, and interest on the Bonds then due. In the event of such a deficiency, available money in the Reserve Account may be used to pay debt service on the Bonds. However, a sufficiently significant deficiency resulting in the depletion of funds in the Reserve Account will impair the Authority’s ability to pay debt service on the Bonds in a timely manner. The Bonds are not subject to acceleration under the Indenture and there are no provisions for acceleration of the Reassessment Bonds under the Fiscal Agent Agreement. The Reassessments do not constitute a personal indebtedness of owners of the respective parcels in the District. As described below, the City has covenanted that, subject to the provisions of the Fiscal Agent Agreement, it will commence judicial foreclosure proceedings against properties with delinquent Reassessment installments. However, there is no guarantee that such a proceeding will result in the full collection of the delinquent Reassessments. The City has determined that it will not obligate itself to advance funds from its treasury to cover any delinquency on the Reassessment Bonds.

THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY AND NOT GENERAL OBLIGATIONS OF THE AUTHORITY OR THE CITY. NEITHER THE FAITH AND CREDIT NOR

THE TAXING POWER OF THE CITY, THE STATE, OR ANY OF ITS POLITICAL SUBDIVISIONS IS PLEDGED TO THE PAYMENT OF THE BONDS OR THE REASSESSMENT BONDS. THE AUTHORITY HAS NO TAXING POWER. NEITHER THE BONDS NOR THE REASSESSMENT BONDS CONSTITUTE AN INDEBTEDNESS OF THE AUTHORITY, THE CITY, THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

Debt Service Coverage for the Bonds

Scheduled principal and interest payments on the Reassessment Bonds are established so that the aggregate amount of debt service payable for the Reassessment Bonds on each applicable payment date is sufficient to permit the Authority to pay the principal of, and interest on, the Bonds when due. The table below shows the scheduled debt service on the Reassessment Bonds and the Bonds for each Bond Year. See “BONDOWNERS’ RISKS” for discussions of certain events, the occurrence of which may affect the collection of Revenues in a timely manner and sufficient amounts to fully cover the debt service payments on the Bonds.

Authority Bonds Debt Service Coverage from Reassessment Bonds Debt Service⁽¹⁾

Bond Year	<u>Reassessment Bonds (i.e., Revenues)</u>			<u>Authority Bonds</u>		<u>Aggregate</u>
	<u>Reassessment</u>	<u>Reassessment</u>	<u>Total</u>	<u>Series 2005A</u>	<u>Series 2005B</u>	
<u>Ending</u>	<u>2005A Bonds</u>	<u>2005B Bonds</u>	<u>Revenues</u>	<u>Bonds</u>	<u>Bonds</u>	<u>Debt Service</u>
<u>Sept. 2</u>						<u>for the Bonds</u>
2005						
2006						
2007						
2008						
2009						
2010						
2011						
2012						
2013						
2014						
2015						
2016						
2017						
2018						
2019						
2020						
2021						
2022						
2023						
2024						
2025						
Total						

(1) Does not take into account any optional or extraordinary redemption of the Bonds or the Reassessment Bonds. Pursuant to the Indenture, proceeds derived from an optional or extraordinary redemption of the Reassessment Bonds will be used to redeem a corresponding principal amount of the Bonds. See “THE BONDS – Redemption.”

Source: Piper Jaffray & Co.

Application of Revenues under the Indenture

Revenues include (i) all amounts payable by the City on the Reassessment Bonds (other than administrative fees and expenses and indemnity against claims payable to the Authority or the Trustee, if any), (ii) any proceeds of the Bonds originally deposited with the Trustee and all moneys deposited and held from time to time by the Trustee in the funds and accounts established under the Indenture (other than the Rebate Fund), and (iii) income and gains with respect to the investment of amounts on deposit in funds and accounts established under the Indenture (other than amounts that may be payable to the United States for rebate purposes).

Pursuant to the Indenture, all Revenues described in clause (i) of the definition thereof received by the Trustee will be deposited in the Revenue Fund. On or before each Interest Payment Date, the Trustee will transfer from the Revenue Fund and set aside in the respective accounts in the amounts and at the times specified in the Indenture in the following order of priority:

- (a) Interest Account,
- (b) Principal Account (if principal of the Bonds will be payable on such Interest Payment Date),
- (c) Redemption Account (if any Bonds are subject to redemption on such Interest Payment Date), and
- (d) Reserve Account.

All money in the above accounts will be held in trust by the Trustee and will be applied, used and withdrawn only for the purposes authorized in the Indenture. All amounts on deposit in the Interest Account and the Principal Account on the first day of any Bond Year, to the extent not required to pay any interest or principal, as applicable, then having come due and payable on the Outstanding Bonds, will be withdrawn by the Trustee and transferred to the City to be used for any lawful purpose. See “APPENDIX E – SUMMARY OF PRINCIPLE LEGAL DOCUMENTS – INDENTURE – Establishment of Funds and Accounts; Flow of Funds – *Revenue Fund*.”

Reserve Account

Upon issuance of the Bonds, the Trustee will deposit \$_____ * from the sale proceeds of the Bonds into the Reserve Account, which is equal to the initial Reserve Requirement. “Reserve Requirement” means, as of any date of calculation, the least of (i) 10 percent of the proceeds of the sale of the Bonds (within the meaning of the Internal Revenue Code of 1986, as amended); (ii) Maximum Annual Debt Service; or (iii) 125 percent of average Annual Debt Service.

Except as otherwise expressly provided in the Indenture, all money in the Reserve Account will be used and withdrawn by the Trustee for the purpose of replenishing the Interest Account, the Principal Account or the Redemption Account (but, with respect to the Redemption Account, only in connection with an extraordinary mandatory redemption of the Bonds upon a redemption of the Reassessment Bonds) in such order, in the event of any deficiency at any time in any of such accounts, or for the purpose of paying the interest on or principal of, or redemption premium, if any, in the event that no other money in the Revenue Fund is lawfully available therefor, or for the retirement of all Bonds then

* Preliminary; subject to change.

Outstanding. So long as the Authority is not in default under the Indenture, any amount in the Reserve Account in excess of the Reserve Requirement will be transferred to the Revenue Fund.

See “APPENDIX E – SUMMARY OF PRINCIPLE LEGAL DOCUMENTS – INDENTURE – Establishment of Funds and Accounts; Flow of Funds – *Revenue Fund* – Reserve Account.”

Application of Reassessment Revenues under the Fiscal Agent Agreement

The Reassessment 2005A Bonds and the Reassessment 2005B Bonds are payable, on a parity, solely from and secured by Reassessment Revenues and certain funds and accounts held under the Fiscal Agent Agreement. Reassessment Revenues include (i) the revenues received by the City in each fiscal year from the collection of the annual installments of the unpaid Reassessments and proceeds from the sale of property for delinquent Reassessment installments and (ii) all 2004-05 Assessments received by the City on or after the issuance date of the Reassessment Bonds (with Reassessment Revenues described in clause (ii) to be applied only toward payment of interest on the Reassessment Bonds due on or before September 2, 2006). Pursuant to the Fiscal Agent Agreement, the Fiscal Agent will establish, and hold in trust, a Reassessment Fund, a Reassessment Prepayment Account in the Reassessment Fund and a Redemption Fund.

Installments of Reassessments will be billed by the County in the general property tax bill to the owners of parcels within the District. The County, upon collection, will remit that portion of the property owners’ payments attributable to the Reassessment installments to the City. Upon receipt of Reassessment Revenues, the City may deduct an amount therefrom for payment of the City’s expenses associated with the collection of the Reassessment Revenues and payment of annual costs associated with the registration of the Reassessment Bonds and other duties of the Fiscal Agent provided for in the Fiscal Agent Agreement. All Reassessment Revenues to be received by the Fiscal Agent (except for those representing prepayments of Reassessments) are to be deposited in the Reassessment Fund. Not later than the third Business Day preceding each Interest Payment Date, the Fiscal Agent will transfer from the Reassessment Fund to the Redemption Fund an amount necessary to pay debt service then coming due with respect to the Reassessment Bonds. On each Interest Payment Date, the Fiscal Agent will disburse money from the Redemption Fund to pay debt service on the Reassessment Bonds then due and payable. All Reassessment Revenues received by the Fiscal Agent which represent prepayment of Reassessments will be deposited in the Reassessment Prepayment Account. The Fiscal Agent will disburse funds from the Reassessment Prepayment Account for the purposes specified in the provisions of the Fiscal Agent Agreement, including to redeem Reassessment 2005A Bonds and the Reassessment 2005B Bonds, on a *pro rata* basis, on the next available call date. On September 3 of each year, if the aggregate amount on deposit in the Reassessment Fund and the Redemption Fund exceeds the greater of (i) one year’s earnings on such amounts, or (ii) one-twelfth (1/12) of the scheduled debt service for the Reassessment Bonds for the then current Bond Year, the Fiscal Agent, at the City’s instruction, will release such excess to the City.

See “APPENDIX E – SUMMARY OF PRINCIPLE LEGAL DOCUMENTS – FISCAL AGENT AGREEMENT – Reassessment Fund” and “– Redemption Fund.”

Levy and Collection of Reassessments

The Reassessments will be billed in annual installments, together with interest, on the County’s secured tax roll on which general taxes on real property are collected. The Reassessment installments are payable and become delinquent at the same time and in the same proportionate amounts and bear the same proportionate penalties and interest after delinquency as to do such general property taxes. As with secured taxes generally, the Reassessments may be paid by property owners in two installments, due

November 1 and February 1, and become delinquent with respect to such installments, on December 10 and April 10, respectively. The properties upon which Reassessments are levied are subject to the same provisions for sale and redemption as are properties for nonpayment of general taxes.

The installments billed against each parcel subject to Reassessments in the District each year represent a *pro rata* share (based on net acreage exclusive of right-of-ways and storm drain areas) of the total principal and interest coming due on all of the Reassessment Bonds that year. The total amount billed against each parcel is based on the percentage which the Reassessment against the property bears to the total of Reassessments in the District. The failure of a property owner to pay an annual Reassessment installment will not result in an increase in Reassessment installments against another property owner in the District. The Reassessments do not constitute a personal indebtedness of owners of the respective parcels in the District. The County's Teeter Plan (adopted pursuant to Sections 4701 through 4717 of the California Revenue and Taxation Code) is currently not applicable to assessment districts. As described below, the City has covenanted that, subject to the provisions of the Fiscal Agent Agreement, it will commence judicial foreclosure proceedings against properties with delinquent Reassessment installments.

Covenant to Foreclose

Under the 1915 Act, if any installment of Reassessment is not paid when due, the City may order the collection of the installment by the institution of a court action to foreclose the lien of such Reassessment. In such an action, the real property subject to the unpaid assessment may be sold at a judicial foreclosure sale. This foreclosure sale procedure is not mandatory under the 1915 Act. However, in the Fiscal Agent Agreement, the City covenants as follows:

Individual Delinquencies. The City will order, or cause to be commenced, judicial foreclosure proceedings against properties with delinquent Reassessment installments in excess of \$5,000 by the October 1 following the close of the fiscal year in which such installments were due.

Aggregate Delinquencies. The City will commence judicial foreclosure proceedings against all properties with delinquent Reassessment installments by the October 1 following the close of each fiscal year in which it receives Reassessment Revenues in an amount which is less than 95 percent of the total Reassessment Revenues which were to be received in the fiscal year and diligently pursue to completion such foreclosure proceedings.

Notwithstanding the foregoing, however, the City may elect to defer the commencement of foreclosure proceedings with respect to any property so long as the City is current in the payment of debt service on the Reassessment Bonds.

In the event that a judicial foreclosure against a parcel with delinquent Reassessment installments is necessary, there may be delays, by operation of law or otherwise, in payment of debt service to the owners of the Reassessment Bonds (*i.e.*, the Trustee as the Authority's assignee) pending the foreclosure proceedings and receipt by the City of the proceeds of the foreclosure sale. No assurance can be given that a parcel subject to foreclosure could be sold for the full amount of the delinquency or that any bid would be received for such parcel. The ability of the City to foreclose the lien of a delinquent installment of a Reassessment may be limited by bankruptcy, insolvency or other laws generally affecting creditors' rights or by California law relating to judicial foreclosure. See "BONDOWNERS' RISKS – Risks of Real Estate Secured Investments Generally; Land Values," "– Bankruptcy and Foreclosure Delays" and "– Price Realized upon Foreclosure." Although the 1915 Act authorizes the City to cause such an action to be commenced and pursued to completion, the City has no obligation to purchase or acquire any lot or parcel of property sold at a foreclosure sale if there is no other purchaser at such sale. In the case of a

delinquency, the Reassessments will have the same lien priority as is provided for general *ad valorem* property taxes.

Prepayment of Reassessments

Owners of parcels in the District are permitted to prepay the Reassessments levied on the parcels at any time. Such a prepayment will result in a redemption of the Reassessment 2005A Bonds and the Reassessment 2005B Bonds, on a *pro rata* basis. Under the Indenture, redemptions of the Reassessment 2005A Bonds and the Reassessment 2005B Bonds will trigger corresponding extraordinary mandatory redemptions of the Series 2005A Bonds and the Series 2005B Bonds, respectively. See “THE BONDS – Redemption – *Extraordinary Mandatory Redemption*.”

Priority of Lien; Existing Liens

The unpaid Reassessments levied within the District and each installment thereof and any interest and penalty thereon constitute a lien against each of the respective parcels within the District until the same are paid. Such lien is on a parity with the lien of general property taxes and any special tax imposed against the same property pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, or other applicable legislation, whether prior to or after the imposition of the Reassessment lien. The Reassessment lien is subordinate to all fixed special assessment liens imposed prior to date of recordation of the assessment lien relating to the Prior Bonds upon the same property but has priority over all existing and future private liens and over all fixed special assessment liens which may thereafter be levied against the property. The Reassessment liens supplant the liens of the assessments for the Prior Bonds (provided, however, if any installment of assessments for the Prior Bonds with respect to a parcel in the District is unpaid as of the date of issuance of the Reassessment Bonds, the lien of the assessments for the Prior Bonds with respect to such parcel will continue and remain in effect until all of the unpaid installments, and penalty and interest thereon, have been paid). See “THE DISTRICT – Direct and Overlapping Debt” for overlapping indebtedness secured by property taxes or assessments levied on parcels in the District.

City Not Obligated to Advance Funds

Pursuant to the 1915 Act, the City has determined to not obligate itself to advance available funds from the City Treasury to cure any deficiency which may occur in the funds and accounts held under the Fiscal Agent Agreement for payment of the Reassessment Bonds. If a delinquency occurs and the Fiscal Agent does not have sufficient Reassessment Revenues on deposit in the Redemption Fund to pay debt service on the Reassessment Bonds in full on a particular Interest Payment Date, then, correspondingly, the Trustee will not receive sufficient Revenues to pay the principal of and interest on the Bonds due on such date. If such event occurs, the Trustee may have to transfer funds from the Reserve Account, if available, to cover the deficiency. See “– Reserve Account” and “BONDOWNERS’ RISKS – The City’s Limited Obligation with Respect to Reassessment Bonds.”

THE DISTRICT

Overview

The District was originally formed pursuant to Resolution No. 5356 of the City Council adopted on March 15, 2000, and related proceedings conducted in accordance with the 1913 Act. The District is located in the north side of the City, encompassing the parcels along the two sides of Madrone Parkway, at the northwest corner of the U.S. Highway 101 and Cochrane Road interchange. As of January 1, 2005, the District consisted of appropriately 89.53 net acres.

The Prior Bonds represent the only bonds previously issued by the District. As described in “PLAN OF REFUNDING,” proceeds from the sale of the Prior Bonds were used to finance certain public infrastructure improvements necessary for the development of the District. These public improvements were completed as of February 2003.

Land in the District is primarily zoned for light industrial or commercial uses and planned unit development (“PUD”). When the District was originally formed in 2000, it was comprised of only three largely undeveloped parcels. The PUD for one parcel, consisting of approximately 60.80 net acres extending east from Montgomery Road, allowed for specified general commercial, light industrial and campus industrial uses. Another parcel (the “MLC property”), consisting of approximately 20.45 net acres at the northeast corner of the District, was zoned for light industrial uses. The zoning designation of a portion of the MLC Property (approximately 7.72 acres) was recently changed to allow commercial uses, such as retail stores supportive of neighboring industrial parks, restaurants, and certain services. The PUD designation for the third original parcel (the “Tharaldson PUD”), consisting of approximately 8.68 net acres at the southeast corner of the District, originally allowed for the development of two hotels, two sit-down restaurants and a gas station. The Tharaldson PUD was later amended to allow one fast-food restaurant and one sit-down restaurant.

Since 2000, the land in the District has been subdivided into smaller parcels. As of January 1, 2005, there were 20 assessor’s parcels in the District, 11 of which (totaling approximately 26.94 net acres) have been fully developed. Current tenants on such parcels include Thomas Kinkaid Company (formerly known as the Media Arts Group, Inc.) and several companies that develop and manufacture high-technology products. There are also a Marriott Courtyard, a Marriott Residence Inn, a Comcast Corporation call center and a Chevron service station in the District.

Nine parcels, representing approximately ____* percent of the estimated Reassessments, remain as undeveloped property. As of January 1, 2005, 10 parcels in the District, representing approximately ____* percent of the estimated Reassessments, are owned by TBI Affiliates. Another three parcels, representing approximately ____* percent of the estimated Reassessments, are owned by Madrone Land Corporation. See “BONDOWNERS’ RISKS – Concentration of Ownership” and “Undeveloped Property in the District” for a discussion of certain risks generally associated with high concentrations of property ownership and undeveloped property in an assessment district that should be considered when evaluating investment qualities of the Bonds.

Property Ownership and Development Status

The following table sets forth a breakdown of the developed and undeveloped parcels by property owner in the District, showing the number parcels, acreage and estimated total Reassessment lien. As used below, the term “developed,” when describing a parcel, means that a structure/improvement value is shown for such property on the 2004-05 County Assessor’s tax roll.

* Preliminary; subject to change.

Table 1
CITY OF MORGAN HILL
ASSESSMENT DISTRICT NO. 2000-1
(MADRONE BUSINESS PARK)
Breakdown of Development Status, Number of Parcels, Acreage and Reassessment Lien
by Property Owner
as of January 1, 2005

<u>Property Owner</u>	<u>Development Status</u>	<u>No. of Parcels</u>	<u>% of Total</u>	<u>Acres</u>	<u>% of Total</u>	<u>Estimated Reassessment Lien *</u>	<u>% of Total</u>
TBI Affiliates ⁽¹⁾	Developed	6	30.0	14.77	16.50		
	Undeveloped	4	20.0	43.95	49.09		
Madrone Land Corporation	Undeveloped	3	15.0	16.14	18.03		
Tharaldson Family	Developed	2	10.0	4.73	5.28		
Comcast of California	Developed	2	10.0	5.99	6.69		
In-N-Out Burger	Undeveloped	2	10.0	2.50	2.79		
<u>Downtown Vancouver Foodmart</u>	<u>Developed</u>	<u>1</u>	<u>5.0</u>	<u>1.45</u>	<u>1.62</u>		
Total		20	100.0%	89.53	100.0%		

(1) Include TBI-Mission West LLC, TBI-Mission West II LLC and TBI-Madrone I LLC.

Source: NBS Government Finance Group.

As shown above, 11 parcels in the District are developed property. The six developed parcels owned by the TBI Affiliates represent approximately ____* percent of the estimated total Reassessment lien. The TBI Affiliates currently lease the buildings and other improvements on five of such parcels to several different entities, including Thomas Kinkaid Company (which publishes and distributes arts by the artist Thomas Kinkaid and related collectibles), EDO Reconnaissance and Surveillance Systems Inc. (which designs and manufactures military and intelligence systems related products), Paramit Corporation (which provides integrated manufacturing and testing services to original equipment manufactures in high-technology industries), Canary Communications (which develops and produces connectivity products for the Ethernet local area network market) and American Predator Corporation (which develops and manufactures long-life controllers for embedded applications, with products that include single board computers, industrial rackmount systems, peripherals and custom engineering services). The property on one of the developed parcels owned by TBI Affiliates (Assessor's Parcel No. 726-35-017) is not currently under any lease. TBI Development has informed the City that such parcel has been listed for sale. The Tharaldson Family's two developed parcels in the District, representing approximately ____* percent of the estimated total Reassessment lien, are currently leased and occupied by a Marriott Courtyard Inn, a Marriott Residence Inn and a Chevron service station. The two parcels owned by Comcast of California, representing approximately ____* percent of the estimated total Reassessment lien, houses a 60,000 square-foot call center.

The nine undeveloped parcels in the District represent approximately ____* percent of the estimated total Reassessment lien. In-N-Out Burger is the owner of two of such parcels. The PUD permits the construction of a drive-thru fast food restaurant and a sit-down restaurant on such parcels, with the condition that the sit-down restaurant would be at least under construction before the issuance of a building permit for the fast-food restaurant. The City is unaware of In-N-Out Burger's current development plan or schedule with respect to these parcels. All of the remaining undeveloped parcels in

* Preliminary; subject to change.

the District are owned by either a TBI Affiliate or Madrone Land Corporation. TBI Development has entered into an agreement to develop one of Madrone Land Corporation's parcels for commercial (including retail) uses. See "THE TBI-AFFILIATES AND TBI DEVELOPMENT; PLAN FOR FURTHER DEVELOPMENT IN THE DISTRICT." The City is not aware of any plan by either Madrone Land Corporation or TBI Development to develop any of the other undeveloped parcels at this time.

Valuation of Property in the District

The value of the land within the District is an important factor in determining the investment quality of the Bonds. If a property owner defaults in Reassessment payments, the City's only remedy is to foreclose on the delinquent property in an attempt to obtain funds with which to pay the delinquent Reassessment. See "SECURITY FOR THE BONDS – Covenant to Foreclose." See "BONDOWNERS' RISKS – Risks of Real Estate Secured Investments Generally; Land Value" for a discussion of certain factors that may from time to time impact the value of property in the District. In connection with the valuing of property in the District for the purposes of this Official Statement, the City has compiled two sources of information: (i) the Appraisal prepared by Carneghi-Blum & Partners, Inc., the Appraiser, for the estimated market value of the seven parcels of undeveloped property owned by a TBI Affiliate or Madrone Land Corporation (the "Appraised Parcels"), and (ii) the 2004-05 County tax roll for the assessed valuation of such property for the remaining parcels in the District.

Appraisal of Certain Parcels. [To be revised to conform to Appraisal] The Appraisal sets forth the estimated market value (described below) of the seven Appraised Parcels. The Appraisal is of the land only and does not include any estimate of value for improvements, if any, on such parcels. The Appraisal sets forth a value estimate as of _____, 2005. The Appraiser's determination of value was for the fee simple estate in the land as of that date, reduced by the lien of the respective Reassessment of the District.

The Appraiser reports that the Appraisal was conducted in accordance with appraisal standards and guidelines found in the Uniform Standards of Professional Appraisal Practice and the Appraisal Standards for Land Secured Financing published by the California Debt and Investment Advisory Commission. See "APPENDIX C - APPRAISAL OF SELECTED PARCELS IN THE DISTRICT."

In considering the estimates of value set forth in the Appraisal, it should be noted that the Appraisal is based upon a number of standard and special assumptions which affected the value estimates. The Appraiser's valuation is for the land only and assumes fee simple ownership of the property, free and clear of any liens or encumbrances other than the lien of the Reassessment for the District. The aggregate value estimate for the seven parcels is reported as the total of the valuation of each individual parcel, no bulk sale discounting was applied due to the varying locations and ownerships of the parcels.

The information contained herein is a summary only of certain information contained in the Appraisal. The Appraisal is reprinted herein as Appendix C. The information contained herein is qualified in its entirety by the complete Appraisal.

Assessed Valuations. In connection with valuing property in the District for this Official Statement, the City has obtained the 2004-05 County assessed valuation of the property in the District which is subject to the Reassessment and not included in the Appraisal. As provided by Article XIII A of the California Constitution, county assessors' assessed values are to reflect market value as of the date the property was last assessed (or 1975, whichever is more recent), increased by a maximum of two percent per year. Properties may be reassessed by the county only upon a change of at least 51 percent ownership of existing property or upon new construction. The assessed values of parcels in the District thus reflect

the estimate of the County Assessor (the “Assessor”) of market value when acquired (or 1975, whichever is later) for undeveloped parcels, and the Assessor’s estimate of market value as of the time of construction for developed parcels, both possibly increased by two percent per year. The actual market value of parcels in the District, if sold at foreclosure, may be higher or lower than the Assessor’s assessed values. The actual fair market value of any parcel may be more accurately established through an arms-length sale or an appraisal by an independent appraiser.

Value Conclusion. The table below sets forth the estimated value of the Appraised Parcels as of January ___, 2005, as reported in the Appraisal, and the 2004-05 County assessed valuation of the remaining parcels in the District. A diagram of the parcels in the District can be found at the end of the Reassessment Engineer’s Report set forth in Appendix B.

Table 2
CITY OF MORGAN HILL
ASSESSMENT DISTRICT NO. 2000-1
(MADRONE BUSINESS PARK)
Summary Estimated or Assessed Value of Parcels in the District

<u>Property Owner</u>	<u>Assessor's Parcel No.</u>	<u>Appraised Value⁽¹⁾</u>		
<i>Appraised Parcels:</i>				
TBI Affiliates ⁽²⁾	726-35-007			
	726-35-015			
	726-35-020			
	726-35-028			
Madrone Land Corporation	726-33-025			
	726-33-026			
	726-33-028			
	Subtotal			
<i>Assessed Value Parcels:</i>		<u>Assessed Value Land Only⁽³⁾</u>	<u>Assessed Value Improvements⁽³⁾</u>	<u>Total Assessed Value⁽³⁾</u>
TBI Affiliates ⁽²⁾	726-33-027	\$2,188,537	\$3,651,463	\$5,840,000
	726-35-014	2,215,562	11,764,438	13,980,000
	726-35-017	1,741,652	7,444,745	9,186,397
	726-35-019	666,178	2,500,000	3,166,178
	726-35-023	2,403,252	11,996,748	14,400,000
	726-25-025	2,545,065	14,510,241	17,055,306
	726-33-020	1,356,446	4,193,554	5,550,000
Tharaldson Family	726-33-021	1,346,220	6,852,491	8,198,711
	726-35-018	2,126,700	7,480,358	9,607,058
Comcast of California	726-35-027	1,064,510	356,390	1,420,900
	726-33-022	1,911,471	1,953,401	3,864,872
Downtown Vancouver Foodmart	726-33-023	737,923	-0-	737,923
In-N-Out Burger	726-33-024	1,436,983	-0-	1,436,983
	Subtotal	<u>\$21,740,499</u>	<u>\$72,703,829</u>	<u>\$94,444,328</u>
TOTAL				

(1) Estimated market value as of _____, 2005, as reported in the Appraisal.

(2) Include TBI-Mission West LLC, TBI-Mission West II LLC and TBI-Madrone I LLC.

(3) Assessed values based on 2004-05 County Assessor roll.

Source: Estimated values for Appraised Parcels from Carneghi-Blum & Partners, Inc.; other information compiled by NBS Government Finance Group.

Estimated Value-to-Reassessment Lien Ratios

The following table shows the estimated value-to-Reassessment lien ratios of the property in the District:

Table 3
CITY OF MORGAN HILL
ASSESSMENT DISTRICT NO. 2000-1
(MADRONE BUSINESS PARK)
Estimated Value-to-Reassessment Lien Ratios

<u>Property Owner</u>	<u>Assessor's Parcel No.</u>	<u>Estimated Value</u>	<u>Reassessment Lien *</u>	<u>Estimated Value-to-Lien</u>
TBI Affiliates ⁽¹⁾	726-33-027	\$5,840,000 ⁽²⁾		
	726-35-007	⁽³⁾		
	726-35-014	13,980,000 ⁽²⁾		
	726-35-015	⁽³⁾		
	726-35-017	9,186,397 ⁽²⁾		
	726-35-019	3,166,178 ⁽²⁾		
	726-35-020	⁽³⁾		
	726-35-023	14,400,000 ⁽²⁾		
	726-35-025	17,055,306 ⁽²⁾		
	726-35-028	⁽³⁾		
Madrone Land Corporation	726-33-025	⁽³⁾		
	726-33-026	⁽³⁾		
	726-33-028	⁽³⁾		
Tharaldson Family	726-33-020	5,550,000 ⁽²⁾		
	726-33-021	8,198,711 ⁽²⁾		
Comcast of California	726-35-018	9,607,058 ⁽²⁾		
	726-35-027	1,420,900 ⁽²⁾		
Downtown Vancouver Foodmart	726-33-022	3,864,872 ⁽²⁾		
In-N-Out Burger	726-33-023	737,923 ⁽²⁾		
	726-33-024	<u>1,436,983</u> ⁽²⁾		
Total				

(1) Include TBI-Mission West LLC, TBI-Mission West II LLC and TBI-Madrone I LLC.

(2) Assessed values based on 2004-05 County Assessor roll.

(3) Estimated market value as of _____, 2005, as set forth in the Appraisal.

Source: Estimated values for Appraised Parcels from Carnegie-Blum & Partners, Inc.; other information compiled by NBS Government Finance Group.

* Preliminary; subject to change.

Assessments Levied and Delinquency History

The table below describes total amount of assessments levied for the District and the related delinquencies from fiscal years 2000-01 through 2003-04:

Table 4
ASSESSMENT DISTRICT NO. 2000-1
(MADRONE BUSINESS PARK)
Assessments Levies and Delinquencies
from Fiscal Years 2000-01 through 2003-04

<u>Fiscal Year</u>	<u>Total Amount Levied</u>	<u>Amount Delinquent</u>
2001	\$313,205.20	\$0
2002	974,091.70	0
2003	987,986.86	0
2004	954,218.32	0

Source: NBS Government Finance Group.

Direct and Overlapping Debt

Set forth in the table below is the direct and overlapping debt payable from taxes, assessments and fixed charges that may be levied in the District:

Table 5
CITY OF MORGAN HILL
ASSESSMENT DISTRICT NO. 2000-1
(MADRONE BUSINESS PARK)
Direct and Overlapping Debt
as of February 1, 2005

2004-05 Local Secured Assessed Valuation ⁽¹⁾ – Land and Improvement Only: \$
– All Property (include fixtures, etc.): \$

OVERLAPPING TAX AND ASSESSMENT DEBT: **% Applic.** ⁽²⁾ **Debt**

TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT ⁽³⁾

DIRECT & OVERLAPPING GENERAL FUND OBLIGATION DEBT:

Santa Clara County General Fund Obligations
Santa Clara County Board of Education Certificates of Participation
Gavilan Joint Community College District General Fund Obligations

TOTAL DIRECT & OVERLAPPING GENERAL FUND OBLIGATION DEBT:

COMBINED TOTAL DEBT:

Ratios to 2004-05 Land and Improvement Only Assessed Valuation:

Combined Direct Debt (\$ _____) %
Total Overlapping Tax and Assessment Debt %
Combined Total Debt %

State School Building Aid Repayable as of 6/30/04: \$0

- (1) Based on County Assessor's 2004-05 secured tax roll.
(2) Based on local secured assessed value for all property (including fixtures, etc.).
(3) Represents the Prior Bonds to be refunded as described in this Official Statement.
(4) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Source: California Municipal Statistics.

Neither the City nor the Authority has any control over the amount of additional debt payable from taxes or assessments levied on the respective properties in the District which may be incurred in the future by other governmental agencies having jurisdiction over all or a portion of the District at any time. To the extent such additional indebtedness is payable from assessments, special taxes levied pursuant to the Mello-Roos Act or other taxes, such assessments, special taxes and other taxes will be secured on the property within the District. Accordingly, the debt on a property in the District could increase without any corresponding increase in the value of the property. The imposition of such additional indebtedness could reduce the willingness or the ability of property owners in the District to pay Reassessments when due. See "BONDOWNERS' RISKS – Cumulative Burden of Parity Taxes, Special Assessments and Development Costs."

THE TBI AFFILIATES AND TBI DEVELOPMENT; PLAN FOR FURTHER DEVELOPMENT IN THE DISTRICT

The following information regarding the TBI Affiliates and TBI Development and TBI Development's current plans with respect to the undeveloped parcels in the District has been provided by TBI Development for use in this Official Statement, and has not been independently confirmed or verified by the Authority, the City or the Underwriter. None of the Authority, the City nor the Underwriter makes any representation as to the accuracy or adequacy of this information or the absence of any material change after the date of this Official Statement. No assurance can be given that the proposed development will occur as described herein or that it will be completed in a timely manner.

The Reassessments are not personal indebtedness of the property owners in the District. The information herein should not be construed to suggest that TBI Development or any of the property owners of parcels in the District is personally liable for payment of Reassessments or that, in the event of default on the Bonds, a deficiency action against TBI Development or any property owner is an available remedy.

The TBI Affiliates

As of January 1, 2005, three affiliates of TBI Development own 10 out of the 20 parcels, or approximately [65.90] percent by area, of the land in the District. These TBI Affiliates are: TBI-Mission West LLC, TBI-Mission West II LLC and TBI-Madrone I LLC.

TBI-Mission West LLC is the owner of five parcels in the District, totaling approximately [41.79] net acres and representing ____* percent of the total estimated Reassessment lien. All except one of the parcels owned by TBI-Mission West LLC are developed property. One of the developed parcels owned by TBI-Mission West LLC, with warehouse facilities, is currently listed for sale. TBI-Mission West LLC is a California limited liability company with TBI-MWP I, a California limited partnership, owning a 50 percent interest and Mission West Properties, Inc., a publicly-traded real estate investment trust, owning the remaining 50 percent interest. TBI-MWP I is the managing member of TBI-Mission West LLC. TBI MWP I is a limited partnership formed by TBI Development, as the general partner, and principals of TBI Development, as limited partners.

TBI-Mission West II LLC is the owner of four parcels in the District, totaling approximately [12.62] net acres and representing ____* percent of the total estimated Reassessment lien. All except one of the parcels owned by TBI-Mission West LLC are undeveloped property. TBI-Mission West II LLC is a California limited liability company with TBI-MWP I owning a 50 percent interest and Carl E. Berg, an individual (who is the Chairman of the Board of Directors and Chief Executive Officer of Mission West Properties), owning the remaining 50 percent interest. TBI-MWP I is the managing member of TBI-Mission West II LLC.

TBI-Madrone I LLC is the owner of one approximately [4.31] net acre parcel of developed property in the District. Such parcel represent ____* percent of the total estimated Reassessment lien. TBI-Madrone I LLC is a California limited liability company, the members of which are TBI-Lightpost I LLC, a California limited liability company (with 25 percent ownership interest), and Madrone Land Corporation (with 75 percent ownership interest). TBI Development is the managing member of TBI-Lightpost I LLC.

* Preliminary; subject to change.

The Major Developer: Toeniskoetter & Breeding, Inc. Development

TBI Development is a California corporation that specializes in the formation of real estate investment partnerships, developing commercial and industrial properties and providing property management services since 1983. TBI Development's projects have been primarily located in Santa Clara and Santa Cruz counties, California. TBI Development's previously completed projects include the 30-acre Cochrane Business Ranch, which is adjacent to the Madrone Business Park; 450 West Santa Clara Street, the O'Connor Health Center and the western headquarters for Integrated Circuit Systems, all in San Jose; Gateway Square in Campbell and Granite Creek Business Center in Scotts Valley.

Plan For Development of Small Retail Center in the District

TBI Development and Madrone Land Corporation have entered into an agreement for TBI Development to develop one of the parcels (Assessor's Parcel No. 726-33-028) currently owned by Madrone Land Corporation. This approximately 7.72 acre parcel is located at the northwest corner of Madrone Parkway and Cochrane Road. TBI Development plans to build an approximately 75,000 square feet retail center on this site. In October 2004, pursuant to TBI Development's application, the City Council approved an amendment to the zoning designation of the parcel from "ML, Light Industrial" to Planned Unit Development. The amendment allows the site to be used for certain permitted commercial purposes (including retail stores supportive of the neighboring industrial parks, restaurants, certain types of offices and services, business and trade schools or a specialty grocery store not exceeding 15,000 square feet) and certain conditional uses (including day care centers, nursery schools, commercial recreation facilities, drive-thru uses and other uses which the Planning Commission of the City finds to be of similar nature to the specified permitted or conditional uses). TBI Development is in the process of soliciting businesses that may be interested in becoming occupants to the proposed retail center. TBI Development hopes that the project will begin construction by September 2005 and be completed by August 2006.

BONDOWNERS' RISKS

INVESTMENT IN THE BONDS INVOLVES ELEMENTS OF RISK. THE FOLLOWING SECTION DESCRIBES CERTAIN SPECIFIC RISK FACTORS AFFECTING THE PAYMENT AND SECURITY OF THE BONDS. THE FOLLOWING DISCUSSION OF RISKS IS NOT MEANT TO BE AN EXHAUSTIVE LIST OF THE RISKS ASSOCIATED WITH THE PURCHASE OF THE BONDS AND THE ORDER OF DISCUSSION OF SUCH RISKS DOES NOT NECESSARILY REFLECT THE RELATIVE IMPORTANCE OF THE VARIOUS RISKS. POTENTIAL INVESTORS ARE ADVISED TO CONSIDER THE FOLLOWING FACTORS ALONG WITH ALL OTHER INFORMATION IN THIS OFFICIAL STATEMENT IN EVALUATING THE BONDS. THERE CAN BE NO ASSURANCE THAT OTHER RISK FACTORS NOT DISCUSSED UNDER THIS CAPTION WILL NOT BECOME MATERIAL IN THE FUTURE.

The Authority's Limited Obligations with Respect to the Bonds

Funds for the payment of the principal of and the interest on the Bonds are derived from debt service payments on the Reassessment Bonds which, in turn, are derived primarily from annual Reassessment installments. While a coverage factor has been established in structuring the annual debt service on the Reassessment Bonds (see "SECURITY FOR THE BONDS – Debt Service Coverage for the Bonds"), the amount of annual Reassessment installments that are collected by the City could be insufficient to pay principal, premium and/or interest on the Reassessment Bonds due to certain

circumstances, such as delinquent payment or non-payment by property owners in the District. In such an event, the Authority's obligation is limited to the transfer of available money in the Revenue Fund, and in particular, the Reserve Account, to make up for such deficiency in order to pay debt service to the owners of the Bonds. The Bonds are not general obligations of the Authority. The Authority has no taxing power.

No Personal Obligations on Part of Property Owners with Respect to Reassessments

The obligation to pay Reassessment installments does not constitute a personal obligation of the current or subsequent owners of the respective parcels subject to the Reassessment lien. Reassessment installments will be billed to the owner of each parcel in the District against which there is a Reassessment lien, with such billing to be made on the regular property tax bills sent to such owners. The Reassessment installments are due and payable at the same time and bear the same late charges and penalties as for non-payment of regular property tax installments. Enforcement of Reassessment payment obligations by the City is limited to judicial foreclosure in the Santa Clara County Superior Court pursuant to Sections 8830 et seq. of the California Streets and Highways Code. See "SECURITY FOR THE BONDS – Covenant to Foreclose." There is no assurance that any current or subsequent owner of a parcel subject to the Reassessment lien will be able to pay the Reassessment installments or that such owner will choose to pay such installments even though financially able to do so. As shown in the "THE DISTRICT – Assessments Levied and Delinquencies," all of the assessments relating to the Prior Bonds payable by the property owners in the District through the end of fiscal year 2003-04 have been paid and collected.

The City's Limited Obligation with Respect to the Reassessment Bonds

Pursuant to Section 8769 of the California Streets and Highways Code, the City has expressly elected not to obligate itself to advance available funds from the City's treasury to make up deficiencies in the amount of Reassessment installments collected. The Reassessment Bonds are not general obligations of the City. Neither the faith and credit nor the taxing power of the City is pledged to the payment of the Bonds or the Reassessment Bonds. The City's legal obligations with respect to any delinquent Reassessment installments are limited to the institution of judicial foreclosure proceedings subject to the provisions of the Fiscal Agent Agreement. See "SECURITY FOR THE BONDS – Covenant to Foreclose." If there is a sustained failure by property owners to pay Reassessment installments when due and the City is unable to sell parcels which have become subject to judicial foreclosure proceedings for amounts sufficient to cover the delinquent Reassessment installments, a default of the Reassessment Bonds may occur. In such an event, a default of the Authority Bonds may follow if there are insufficient funds in the Reserve Account to make up for such deficiency.

Risks of Real Estate Secured Investments Generally; Land Values

The Bondowners will be subject to the risks generally incident to an investment secured by real estate, including but not limited to, (i) adverse changes in local market conditions, such as changes in the market value of real property in the vicinity of the District, the supply of or demand for competitive properties in such area, and the market value of commercial and industrial buildings or sites in the event of sale or foreclosure, (ii) changes in real estate tax rates and other operating expenses, government rules (including, without limitation, zoning laws, growth control initiatives and laws relating to threatened and endangered species) and fiscal policies and (iii) natural disasters (including, without limitation, earthquakes and floods), which may result in uninsured losses. These risks affect the value of the property, as well as the property owners' willingness or ability to pay Reassessments installments.

The value of land within the District is an important factor in evaluating the investment quality of the Bonds. In the event that a property owner defaults in the payment of an Reassessment installment, the City's only remedy is to judicially foreclose on that property. Prospective purchasers of the Bonds should not assume that the property within the District could be sold for the assessed or estimated market value described herein at a foreclosure sale for delinquent Reassessment installments or for an amount adequate to pay delinquent Reassessment installments. The assessed values shown in this Official Statement are based on County's 2004-05 tax roll. As discussed in "THE DISTRICT – Valuation of Property in the District – *Assessed Valuations*," such assessed values may not reflect the actual, present market value of such property. The Appraisal was prepared for the purposes of providing market value estimates for the Appraised Parcels as of _____, 2005. Such estimates were based on various assumptions and subject to a number of limitations. See "APPENDIX C – APPRAISAL FOR SELECTED PARCELS IN THE DISTRICT" for a description of the analysis and assumptions made by the Appraiser. The City makes no representation as to the accuracy of the Appraisal. Reductions in property values within the District due to future events, such as a downturn in the economy or the real estate market, events such as earthquakes, droughts, or floods, stricter land use regulations, threatened or endangered species or other events may adversely impact the value of the property in the District and, thus, the security underlying the Reassessments.

Concentration of Ownership

As discussed under the caption "THE DISTRICT – Property Ownership," the three TBI Affiliates will be responsible for approximately ____* percent of the aggregate estimated Reassessment lien in the District, and Madrone Land Corporation will be responsible for approximately ____* percent of the aggregate estimated Reassessment lien in the District. Due to this concentration of ownership of the property in the District, if either the TBI Affiliates or Madrone Land Corporation become unwilling or unable to pay Reassessment installments in a timely manner or in sufficient amounts, a default on the Reassessment Bonds may follow. The City is currently unaware of any event which would cause these top landowners to be unable or unwilling to pay Reassessment installments when due. However, the City does not make any representation and gives no assurance that such any event does not exist or will not occur in the future. Due to the limited parcels in the District and the non-residential character of the properties, it is likely that ownership of property in the District may be concentrated among a small number of owners for a long period of time.

Undeveloped Property in the District

Approximately ____* percent of the estimated total Reassessments are secured by liens on nine parcels of undeveloped property in the District. In assessing the investment quality of the Bonds, prospective purchasers should be aware that undeveloped land is often less valuable than the same land in a developed condition should it be necessary for the City to foreclose due to the nonpayment of assessments (or, in this case, Reassessments). Therefore, undeveloped land in an assessment district is generally regarded as less valuable than developed land in terms of security to holders of bonds that are secured by assessments levied in such district. Except for one parcel owned by Madrone Land Corporation, the City is unaware of any current plan or schedule by landowners to develop their undeveloped parcels in the District.

As discussed under the caption "THE DISTRICT – THE TBI-AFFILIATES AND TBI DEVELOPMENT; PLAN FOR FURTHER DEVELOPMENT IN THE DISTRICT," TBI Development has entered into an agreement to develop one of the undeveloped parcels currently owned by Madrone Land Corporation. However, no guarantee can be given that TBI's development plan with respect to such

* Preliminary; subject to change.

parcel will occur in the manner or according to the schedule as described in this Official Statement. There are numerous factors that may contribute to a property owner's willingness or ability to develop the undeveloped land, including but not limited to, general economic condition of the region, then-existing governmental policies, regulations or growth control initiatives. The occurrence of any event which significantly impacts the ability to develop land in the District may affect the willingness or ability of the owners of the undeveloped property to pay the Reassessment installments when due.

Priority of Reassessment Liens

The Reassessments and each installment thereof and any interest and penalties thereon constitute a lien against the parcels in the District on which they were imposed until the same are paid. Such lien is subordinate to all fixed special assessment liens previously imposed upon the same property, but has priority over all private liens and over all fixed special assessment liens which may thereafter be created against such property. The Reassessment lien is co-equal to and independent of the lien for general and special taxes. [As shown in Table__ under the caption "THE DISTRICT – Direct and Overlapping Debt," parcels in the District are subject to special assessment liens relating to the Santa Clara Valley Water District Flood Control Benefit Assessment District, some of which have priority over the Reassessment liens. See "– Cumulative Burden of Parity Taxes, Special Assessments and Development Costs."]

Bankruptcy and Foreclosure Delays

The payment of Reassessment installments and the ability of the City to foreclose the lien of a delinquent Reassessment is normally delayed by and may be limited in other ways by bankruptcy, insolvency, or other laws generally affecting creditors' rights or by State laws relating to judicial foreclosure. In addition, the prosecution of a judicial foreclosure may be delayed due to congested local court calendars or procedural delays.

Although bankruptcy proceedings would not cause the lien of the Reassessments to become extinguished, bankruptcy of a property owner or of a partner or other equity owner of a property owner, could result in a stay of enforcement of the lien for the Reassessments, a delay in prosecuting Superior Court foreclosure proceedings or adversely affect the ability or willingness of a property owner to pay the Reassessment installments and could result in the possibility of delinquent Reassessment installments not being paid in full. In addition, the amount of any lien on property securing the payment of delinquent Reassessment installments could be reduced if the value of the property were determined by the bankruptcy court to have become less than the amount of the lien, and the amount of the delinquent Reassessment installments in excess of the reduced lien could then be treated as an unsecured claim by the court. Any such stay of the enforcement of the lien for the Reassessments, or any such delay or non-payment, would increase the likelihood of a delay or default in payment of the principal of and interest on the Bonds and the possibility of delinquent Reassessment installments not being paid in full. Moreover, amounts received upon foreclosure sales may not be sufficient to fully discharge delinquent Reassessment installments. If a significant percentage of the property in the District becomes the subject of bankruptcy proceedings, the payment of the Reassessment installments and the ability of the City to foreclose the lien of delinquent unpaid Reassessment installments could be extremely curtailed by bankruptcy, insolvency, or other laws generally affecting creditors' rights or by the laws of the State relating to judicial foreclosure.

Price Realized upon Foreclosure

Section 8832 of the Streets and Highways Code prescribes the minimum price (the "Minimum Price") at which property may be sold in a judicial foreclosure resulting from delinquencies on

assessment installments. The Minimum Price is the amount equal to the delinquent installments of principal and interest of the assessment, together with all interest, penalties, costs, fees, charges and other amounts more fully detailed in said Section 8832. In certain circumstances, as provided Section 8836 of the Streets and Highways Code, the court may modify the judgment after a hearing if the court makes certain determinations, including determinations that the sale at less than the Minimum Price will not result in an ultimate loss to the owners of the assessment bonds or that the owners of at least 75 percent of the principal amount of the assessment bonds outstanding have consented to the petition and the sale will not result in an ultimate loss to nonconsenting bondholders. Upon issuance of the Reassessment Bonds, the Trustee, as the Authority's assignee, will be the registered owner of 100 percent of the Reassessment Bonds. The court may also make such modification of the judgment upon consent of the owners of at least 75 percent of the principal amount of the assessment bonds without determining that the sale will not result in an ultimate loss to the nonconsenting bondholders if the court makes certain findings, including among others: (i) no bids equal to or greater than the Minimum Price have been received at the foreclosure sale; (ii) the City has reasonably determined that a reassessment and refunding proceeding is not practicable or has in good faith endeavored to accomplish a reassessment and refunding and has not been successful, or has completed reassessment and refunding arrangements which will, to the maximum extent feasible, minimize the ultimate loss to the bondholders; and (iii) no other remedy acceptable to the owners or holders of 75 percent or more of the principal amount of the outstanding assessment bonds, is reasonably available.

The Reassessment lien upon property sold pursuant to this procedure at a lesser price than the Minimum Price would be reduced by the difference between the Minimum Price and the actual sale price. In addition, the court would permit participation by the Authority, as owner of all of the Reassessment Bonds, in its consideration of the petition as necessary to its determination. Reference should be made to Section 8836 of the Streets and Highways Code for the complete presentation of this provision.

If foreclosure proceedings do not result in full collection of delinquent Reassessment installments, it is possible that owners of the Bonds may not receive payment of principal or interest on the Bonds if there are insufficient funds available to make up for the deficient amount of Revenues.

Potential Early Redemption of Bonds from Prepayments

Property owners within the District are permitted to prepay their Reassessments at any time. Prepayments of Reassessments will result in a redemption of Reassessment Bonds pursuant to the Fiscal Agent Agreement. The proceeds of the Reassessment Bonds so redeemed will then be used to make a mandatory redemption of the Bonds. See "THE BONDS – Redemption – *Extraordinary Mandatory Redemption upon Redemption of Reassessment Bonds*" and "SECURITY FOR THE BONDS – Prepayment of Reassessments."

Natural Disasters

The District, like all California communities, may be subject to unpredictable seismic activity, fires due to the vegetation and topography, or flooding in the event of unseasonable rainfall. The occurrence of seismic activity, fires or flooding in or around the District could result in substantial damage to properties in the District which, in turn, could substantially reduce the value of such properties. As a result of the occurrence of such an event, a substantial portion of the property owners may be unable or unwilling to pay the Reassessment installments when due. In addition, the value of land in the District could be diminished in the aftermath of such natural events, reducing the resulting proceeds of foreclosure sales in the event of delinquencies in the payment of the Reassessment installments.

Threatened and Endangered Species

In recent years, there has been an increase in activity at the State and Federal levels relating to the listing, or possible future listing, as threatened or endangered species of certain plant and animal species found in the State. In light of various concerns regarding the protection of threatened and endangered species, as well as compliance with applicable governmental regulations, discovery of threatened and endangered species in the District could delay or otherwise adversely impact the development of undeveloped property in the District. This, in turn, could reduce the value of the affected property and the ability or willingness of the owners of such property to pay Reassessment installments when due. At present, [the City is not aware of the presence of any threatened or endangered species in the District.]

Hazardous Substances

While governmental taxes and assessment charges are a common claim against the value of a parcel, other less common claims may be relevant. One of the most serious claims, in terms of the potential reduction in the value of a parcel in any assessment district, is a claim regarding hazardous substance. In general, the owners and operators of a parcel may be required by law to remedy conditions of a parcel relating to releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as “CERLA” or the “Superfund Act,” is one of the most well-known and widely applicable of these laws, but California laws with respect to hazardous substances are also generally regarded as stringent. Generally, many of these laws obligate the owner (or operator) to remedy a hazardous substance condition of property whether or not the owner (or operator) has anything to do with creating or handling the hazardous substance. The effect therefore, should a parcel in the District be affected by a hazardous substance, is that the marketability and value of the parcel may be reduced by the costs of remedying the condition, because the purchaser, upon becoming the owner, will become obligated to remedy the condition just as is the seller. Further such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling it. All of these possibilities could significantly affect the financial and legal liability of a property owner to develop the affected parcel (if it is undeveloped) or make improvements thereon, as well as the value of the property that is realized upon foreclosure. [To come: Brief updates on environment matters discussed in 2000 OS.] [The City is not aware of any owner (or operator) of property in the District that is subject to a current liability under hazardous substance law with respect to any of the parcels in the District.] However, the City makes no representation and gives no assurance that such hazardous substance liabilities or conditions do not currently exist or will not arise in the future.

Cumulative Burden of Parity Taxes, Special Assessments and Development Costs

Certain direct and overlapping indebtedness payable from taxes and assessments on land within the District is currently outstanding. See “THE DISTRICT — Direct and Overlapping Debt.” Neither the City nor the Authority has any control over the ability of other governmental entities to issue indebtedness secured by *ad valorem* taxes, special taxes or assessments payable from all or a portion of the property within the District.

Approximately ____* percent of the estimated total Reassessments are on undeveloped land within the District. To develop such property, the current or future owners may require financing that would increase the public and/or private debt for which such property provides security. Such debt and any additional debt could reduce the ability or willingness of the owners of such property to pay the Reassessments as they become due. Other financial obligations of property owners may also affect their ability to pay the Reassessments.

The ability of the City to collect the Reassessment installments could be adversely affected if additional debt is issued and/or imposed on the parcels within the District. The imposition of additional liens on the property within the District may reduce the ability or willingness of the property owners to pay the Reassessment installments and may increase the possibility that foreclosure proceeds will not be adequate to pay delinquent Reassessment installments.

California Constitution Article XIIC and Article XIID

On November 5, 1996, the voters of the State approved Proposition 218, the so-called “Right to Vote on Taxes Act.” Proposition 218 added Articles XIIC and XIID to the State Constitution, which contain, among other things, a number of provisions affecting the ability of the City to levy and collect both existing and future taxes, assessments, fees and charges.

Article XIID requires that, beginning July 1, 1997, the proceedings for the levy of any special assessment (including, if applicable, any increase in such assessment or any supplemental assessment) must be conducted in conformity with the provisions of Section 4 of Article XIID. Section 9525(b) of the California Streets and Highways Code provides that any reassessment approved and confirmed pursuant to Section 9525 of the California Streets and Highways Code shall not be deemed to be an assessment within the meaning of, and may be ordered without compliance with the procedural requirements of, Article XIID. The Reassessments were approved and confirmed pursuant to Section 9525 of the California Streets and Highways Code. Furthermore, the assessments relating to the Prior Bonds (which are supplanted and superseded by the Reassessments) were levied prior to July 1, 1997. Therefore, neither the assessments relating to the Prior Bonds nor the Reassessments are subject to the provisions of Section 4 of Article XIID. In addition, under Section 10400 of the California Streets and Highways Code, any challenge (including any constitutional challenge) to the proceedings or the assessment must be brought within 30 days after the date the assessment was levied.

Article XIIC removes limitations on the initiative power in matters of local taxes, assessments, fees and charges. This provision of Article XIIC is not, by its terms, restricted in its application to assessments which were established or imposed on or after July 1, 1997. In the case of the unpaid Reassessments which are pledged as security for the payment of the Reassessment Bonds, the Act provides a mandatory, statutory duty of the City and the County Auditor to post installments on account of the unpaid Reassessments to the property tax roll of the City each year while any of the Reassessment Bonds are outstanding, in amounts equal to the principal of and interest on the related issue of Reassessment Bonds coming due in the succeeding calendar year. While the matter is not free from doubt, it is likely that a court would hold that the initiative power cannot be used to reduce or repeal the unpaid Reassessments which are pledged as security for payment of the Reassessment Bonds or to otherwise interfere with performance of the mandatory, statutory duty of the City and the County Auditor with respect to the unpaid Reassessments which are pledged as security for payment of such Reassessment Bonds.

The interpretation and application of the Articles XIIC and XIID will ultimately be determined by the courts with respect to a number of the matters discussed above, and it is not possible at this time to predict with certainty the outcome of such determination.

No Acceleration

There is no provision in the Indenture or the Fiscal Agent Agreement for acceleration of the payment of principal of or interest on the Bonds or the Reassessment Bonds in the event of default or in the event that interest on the Series 2005A Bonds becomes included in gross income for federal income tax purposes. There is no provision in the Act, the Indenture or the Fiscal Agent Agreement for the

acceleration of the Reassessments in the event of a payment default by an owner of a parcel within the District or otherwise, or upon any adverse change in the tax status of interest on the Series 2005A Bonds.

Limitations on Remedies

Remedies available to the Owners may be limited by a variety of factors and may be inadequate to assure the timely payment of principal of and interest and premium, if any, on the Bonds or to preserve the tax-exempt status of interest on the Series 2005A Bonds.

Bond Counsel has limited its opinion as to the enforceability of the Bonds and the Indenture to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium, or others similar laws affecting generally the enforcement of creditor's rights, by equitable principles and by the exercise of judicial discretion. Additionally, the Bonds are not subject to acceleration in the event of the breach of any covenant or duty under the Indenture. The lack of availability of certain remedies or the limitation of remedies may entail risks of delay in the exercise of, or limitations on or modifications to, the rights of the Owners.

Enforceability of the rights and remedies of the owners of the Bonds, and the obligations incurred by the Authority and the City with respect to the Bonds and the Reassessment Bonds, may become subject to the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditor's rights generally, now or hereafter in effect, equity principles which may limit the specific enforcement under State law of certain remedies, the exercise by the United States of America of the powers delegated to it by the Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose and the limitations on remedies against governmental entities in the State. Also see "– Bankruptcy and Foreclosure Delays."

Investment of Funds

The Reserve Account and all other funds held under the Indenture and the Fiscal Agent Agreement are required to be invested in Permitted Investments as provided under the Indenture and the Fiscal Agent Agreement, respectively. See "APPENDIX E – SUMMARY OF PRINCIPAL DOCUMENTS." All investments, including Permitted Investments, authorized by law from time to time for investments by the City contain a certain degree of risk. Such risks include, but are not limited to, a lower rate of return than expected, a decline in market value and a loss or delayed receipt of principal. The occurrence of these events with respect to amounts held under the Indenture and the Fiscal Agent Agreement could have a material adverse effect on the security for the Bonds.

Loss of Tax Exemption for Series 2005A Bonds

In order to maintain the exclusion from gross income for federal income tax purposes of the interest on the Series 2005A Bonds, the Authority and the City have covenanted to comply with the applicable requirements of Section 148 and certain other sections of the Internal Revenue Code of 1986, as amended, relative to arbitrage and avoidance of characterization as private activity bonds, among other things. The interest on the Series 2005A Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date of issuance of the Series 2005A Bonds as a result of acts or omissions of the Authority or the City in violation of their covenants. Should such an event of taxability occur, the Series 2005A Bonds are not subject to acceleration, redemption or any increase in interest rates and will remain Outstanding until maturity or until redeemed under one of the redemption provisions contained in the Indenture. See "TAX MATTERS."

Secondary Market

There can be no assurance that there will be a secondary market for the Bonds, or if a secondary market exists, that such Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, pricing of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could substantially differ from the original purchase price.

THE AUTHORITY

The Authority was established pursuant to Article 1 (commencing with Section 6500) of Chapter 5, Division 7, Title 1 of the California Government Code and a Joint Exercise of Powers Agreement, dated as of November 5, 2003, by and between the City and the Morgan Hill Redevelopment Agency. The governing commission of the Authority is comprised of all of the individuals who currently are members of the City Council of the City. The Authority is qualified to assist in financing or refinancing projects and certain public improvements and to issue the Bonds under the Bond Law. The Authority has no taxing power. The Authority and the City are each separate and distinct legal entities, and the debts and obligations of each such entity are not debts or obligations of the other entity.

THE CITY

The City is nestled against the foothills of the Coastal Ranges near the southern end of the Santa Clara Valley in southern part of the County. Encompassing an area of approximately 11 square miles, the City is about 70 miles south of San Francisco and is bordered by San Jose to the north, San Martin and Gilroy to the south, and unincorporated county land to the east and west. The City was incorporated on November 10, 1906 as a general law city. The City currently functions under a Council/Manager form of government. A five member City Council, including the Mayor, is elected at large. The City Manager is appointed by the City Council to manage the City's staff and generally implement policies established by the City Council. As of January 1, 2004, the population of the City was approximately 35,500, according to State of California Department of Finance estimates. See "APPENDIX A – SUPPLEMENTAL INFORMATION ON THE CITY OF MORGAN HILL" for more general information about the City.

ABSENCE OF LITIGATION

To the Authority's and the City's knowledge, there is no litigation pending or threatened to restrain or enjoin the issuance, execution or delivery of the Bonds, to contest the validity of the Bonds, the Indenture, the Reassessment Bonds, the Fiscal Agent Agreement, the Escrow Agreement or any proceedings of the City or the Authority with respect thereto. In the opinion of the Authority and its counsel, there is no lawsuit or claim pending against the Authority which will materially impair the Authority's ability to enter into the Indenture or restrain or enjoin the collection of Revenues as contemplated therein. In the opinion of the City Attorney of the City, there is no lawsuit or claim pending against the City which will materially impair the City's ability to enter into the Fiscal Agent Agreement or restrain or enjoin the collection of Reassessments.

CONTINUING DISCLOSURE

Pursuant to Rule 15c2-12 of the Securities and Exchange Commission (the "Rule"), the City has entered into the Continuing Disclosure Agreement with NBS Government Finance Group, as Dissemination Agent (the "Dissemination Agent"), for the benefit of holders of the Bonds to provide certain financial information and operating data relating to the District and the balances of funds relating

to the Bonds and the Reassessment Bonds, by not later than February 15 of each year, commencing with the Annual Report for the 2004-05 fiscal year, and to provide notices of the occurrence of certain enumerated events, if deemed by the City to be material. Pursuant to the Continuing Disclosure Agreement, TBI Development will provide certain information each year for inclusion in the City's Annual Report so long as the Bonds remain Outstanding; provided that TBI's Development's obligation to provide such information will terminate upon the earlier occurrence of the following: (i) Affiliates of TBI Development (including TBI Development, if applicable) collectively own less than 25 percent of the land, by area, in the District, or (ii) all Reassessments attributable to property owned by Affiliates of TBI Development (including TBI Development, if applicable) have been prepaid in full. The Annual Report will be filed by the Dissemination Agent, with each Nationally Recognized Municipal Securities Information Repository (the "NRMSIRS") and with the State Information Depository (the "State Depository"), if any. Notices of material events will be filed by or on behalf of the City with the NRMSIRS or the Municipal Securities Rulemaking Board (the "MSRB") and with the State Depository, if any. The nature of the information to be provided in the Annual Report and the notices of material events is set forth under the caption "APPENDIX G – FORM OF CONTINUING DISCLOSURE AGREEMENT."

LEGAL MATTERS

The legality of the issuance of the Bonds is subject to the approval of Richards, Watson & Gershon, A Professional Corporation, Los Angeles, California, Bond Counsel. Bond Counsel's opinions with respect to the Bonds will be substantially in the forms set forth in APPENDIX D of this Official Statement. Fees payable to Bond Counsel are contingent upon successful sale and delivery of the Bonds.

TAX MATTERS

In the opinion of Richards, Watson & Gershon, A Professional Corporation, Bond Counsel, under existing law interest on the Series 2005A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. Bond Counsel will express no opinion as to any other federal tax consequences regarding the Series 2005A Bonds.

The opinion on federal tax matters will be based on and will assume the accuracy of certain representations and certifications, and continuing compliance with certain covenants, of the Authority and the City that are intended to assure the foregoing, including that the Series 2005A Bonds are and will remain obligations, the interest on which is excluded from gross income for federal income tax purposes. Bond Counsel will not independently verify the accuracy of those representations and certifications.

The Code prescribes a number of qualifications and conditions for the interest on state and local government obligations to be and to remain excluded from gross income for federal income tax purposes. Some of these qualifications and conditions require future or continued compliance after issuance of the obligations for the interest to be and to continue to be excluded from the date of issuance. Noncompliance with these qualifications and conditions by the Authority or the City may cause the interest on the Series 2005A Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Series 2005A Bonds. The Authority and the City have covenanted to take the actions required of them for the interest on the Series 2005A Bonds to be and to remain excluded from gross income for federal income tax purposes, and not to take any actions that would adversely affect that exclusion.

Under the Code, a portion of the interest on the Series 2005A Bonds earned by certain corporations may be subject to a corporate alternative minimum tax. In addition, interest on the Series 2005A Bonds may be subject to a branch profits tax imposed on certain foreign corporations doing business in the United States and to a tax imposed on excess net passive income of certain S corporations.

Under the Code, the exclusion of interest from gross income for federal income tax purposes may have certain adverse federal income tax consequences on items of income, deduction or credit for certain taxpayers, including financial institutions, certain insurance companies, recipients of Social Security and Railroad Retirement benefits, those that are deemed to incur or continue indebtedness to acquire or carry tax-exempt obligations, and individuals otherwise eligible for the earned income tax credit. The applicability and extent of these and other tax consequences will depend upon the particular tax status or other tax items of the owners of the Series 2005A Bonds. Bond Counsel will express no opinion regarding those consequences.

Any excess of the stated redemption price at maturity of the Series 2005A Bonds over the initial offering price to the public of the Series 2005A Bonds set forth on the inside cover of this Official Statement is "original issue discount." Such original issue discount accruing on a Series 2005A Bond is treated as interest excluded from the gross income of the owner thereof for federal income tax purposes and exempt from California personal income tax. Original issue discount on any Series 2005A Bond purchased at such initial offering price and pursuant to such initial offering will accrue on a semiannual basis over the term of the Series 2005A Bond on the basis of a constant yield method and, within each semiannual period, will accrue on a ratable daily basis. The amount of original issue discount on such a Series 2005A Bond accruing during each period is added to the adjusted basis of such Series 2005A Bond to determine taxable gain upon disposition (including sale, redemption or payment on maturity) of such Series 2005A Bond. The Code includes certain provisions relating to the accrual of original issue discount in the case of purchasers of the Series 2005A Bonds who purchase the Series 2005A Bonds other than at the initial offering price and pursuant to the initial offering. Any person considering purchasing a Series 2005A Bond should consult his or her own tax advisors with respect to the tax consequences of ownership of bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering and the original offering price, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such bonds under federal individual and corporate alternative minimum taxes.

If the Series 2005A Bonds were offered and sold to the public at a price in excess of their stated redemption price (the principal amount) at maturity, that excess constitutes "premium." For federal income tax purposes, that premium is amortized over the period to maturity of the Series 2005A Bonds, based on the yield to maturity of the Series 2005A Bonds, compounded semiannually. No portion of that premium is deductible by the owner of a Series 2005A Bond. For purposes of determining the owner's gain or loss on the sale, redemption (including redemption at maturity) or other disposition of a Series 2005A Bond, the owner's tax basis in the Series 2005A Bond is reduced by the amount of premium that accrues during the period of ownership. As a result, an owner may realize taxable gain for federal income tax purposes from the sale or other disposition of a Series 2005A Bond for an amount equal to or less than the amount paid by the owner for that Series 2005A Bond. A purchaser of a Series 2005A Bond in the initial public offering at the price for that Series 2005A Bond stated on the inside cover of this Official Statement who holds that Series 2005A Bond to maturity will realize no gain or loss upon the retirement of that Bond. Owners of the Bonds should consult their own tax advisers as to the determination for federal income tax purposes of the amount of premium properly accruable in any period with respect to the Series 2005A Bonds and as to other federal tax consequences and the treatment of premium for purposes of state and local taxes on, or based on, income.

Purchasers of the Series 2005A Bonds at other than their original issuance at the respective prices indicated on the inside cover of this Official Statement should consult their own tax advisers regarding other tax considerations such as the consequences of market discount or premium.

Bond Counsel expresses no opinion whether interest on the Series 2005B Bonds is excluded from gross income for federal income tax purposes, and it is not the intent of the Authority that such interest be tax exempt.

In the further opinion of Bond Counsel, interest on both the Series 2005A Bonds and the Series 2005B Bonds is exempt from personal income taxation imposed by the State of California.

A copy of each the proposed forms of opinions of Bond Counsel with respect to the Series 2005A Bonds and the Series 2005B Bonds are attached hereto as APPENDIX D.

FINANCIAL ADVISOR

RBC Dain Rauscher Inc. has acted as financial advisor to the Authority concerning the Bonds. As financial advisor, RBC Dain Rauscher Inc. will receive compensation contingent upon the sale and delivery of the Bonds.

VERIFICATION AND MATHEMATICAL ACCURACY

_____, certified public accountants (the “Verification Agent”), will verify the mathematical accuracy of certain computations included in the schedules provided on behalf of the City relating to (i) the computation of forecasted receipts of principal and interest on the Escrow Securities and the forecasted payments of principal, interest, and premium in connection with the redemption and payment of the Prior Bonds, and (ii) the computation of the yields on the Bonds and the Escrow Securities. The report of the Verification Agent will include the statement that the scope of its engagement was limited to verifying the arithmetical accuracy of computations contained in the scheduled provided to the Verification Agent and the Verification Agent has no obligation to update its report because of events occurring, or data or information coming to the Verification Agent’s attention, subsequent to the date of its report.

UNDERWRITING

Piper Jaffray & Co. (the “Underwriter”) has agreed, subject to certain conditions, to purchase the Series 2005A Bonds at a purchase price of \$_____ (which is equal to the \$_____ principal amount of the Series 2005A Bonds, [less/plus] an original issue [discount/premium] of \$_____, and less an Underwriter’s discount of \$_____) and the Series 2005B Bonds at a purchase price of \$_____ (which is equal to the \$_____ principal amount of the Series 2005B Bonds, [less/plus] an original issue [discount/premium] of \$_____, and less an Underwriter’s discount of \$_____). The Underwriter intends to offer the Bonds to the public initially at the prices set forth on the inside cover page of this Official Statement, which prices may subsequently change without any requirement of prior notice.

NO RATING

The Authority has not made and does not contemplate applying to any rating agency for an assignment of a rating on the Bonds. The City has not made and does not contemplate applying to any rating agency for an assignment of a rating on the Reassessment Bonds.

MISCELLANEOUS

All of the preceding description and summaries of the Bonds, the Reassessment Bonds, the Indenture, the Fiscal Agent Agreement, the 1913 Act, the Refunding Act, other applicable legislation, agreements and other documents are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the City for further information in connection therewith.

Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

The Authority and the City have duly authorized the execution and delivery of this Official Statement by the Chief Administrative Officer of the Authority and the City Manager of the City.

MORGAN HILL FINANCING AUTHORITY

By: _____
Chief Administrative Officer

CITY OF MORGAN HILL

By: _____
City Manager

APPENDIX A

SUPPLEMENTAL INFORMATION ON THE CITY OF MORGAN HILL

The following information concerning the City of Morgan Hill is included only for the purpose of supplying general information regarding the community. The Bonds are secured and will be paid solely from Revenues and certain funds and accounts held under the Indenture. Revenues consist primarily of payments by the City on the Reassessment Bonds which are, in turn, secured by Reassessments levied on the parcels in the District. The Bonds are not a debt of the City of Morgan Hill, the State of California or any of its political subdivisions, and none of the City, the State or any of its political subdivisions is liable therefor.

General

The City of Morgan Hill (the "City") is located against the foothills of the Coastal Ranges near the southern end of the Santa Clara Valley in the southern part of the Santa Clara County (the "County"). The City is located 70 miles south of San Francisco and 20 miles south of San Jose. The City is bordered by San Martin and Gilroy to the south, San Jose to the north, and unincorporated county land to the east and west. The City encompasses an area of approximately 11 square miles with an average elevation of 345 feet above sea level.

Incorporated on November 10, 1906 as a general law city, the City currently functions under a Council/Manager form of Government. A five member City Council, including the Mayor, is elected at large. The City Treasurer and the City Clerk are also elected at large. The City currently employs approximately 156 permanent employees.

The current members of the City Council are as follows:

<u>Name and Office</u>	<u>Current Term Expires</u>
Dennis Kennedy, <i>Mayor</i>	November 2006
Steve Tate, <i>Mayor Pro Tem</i>	November 2006
Larry Carr, <i>Council Member</i>	November 2008
Mark Grzan, <i>Council Member</i>	November 2008
Greg Sellers, <i>Council Member</i>	November 2006

Population

The City's population was approximately 35,500 as of January 1, 2004, according to the California State Department of Finance's estimates. The table below shows the population growth in the City from January 1, 1995 through January 1, 2004:

CITY OF MORGAN HILL
City Population
Calendar Years 1995 through 2004

<u>Year ⁽¹⁾</u>	<u>Population</u>	<u>Growth Rate</u>
1995	27,138	3.05%
1996	28,100	4.07
1997	29,300	4.27
1998	30,750	4.95
1999	31,850	3.58
2000	33,200	4.24
2001	34,250	3.16
2002	34,750	1.46
2003	34,750	0.00
2004	35,500	2.16

⁽¹⁾ As of January 1 of each year.

Source: State of California, Department of Finance, Demographic Research Unit

Residential Development Control System. A voter-approved growth management system, known as the Residential Development Control System (“RDSCS”), was enacted by the City’s voters in 1977, as Measure E. It was later updated in 1990, as Measure P, and in 2004, as Measure C. Measure C, among other things, extended the expiration of the RDSCS through the end of fiscal year 2020. The RDSCS is embodied in Chapter 18.78 of the City’s Municipal Code, as well as the City’s General Plan and Zoning Ordinance. Generally, the RDSCS regulates growth by limiting the number of new homes to be built each year, according to a point system based on a variety of factors including provision of public services, site planning and architectural design considerations. Measure C establishes a population ceiling of 48,000 in the City through the end of fiscal year 2020. Measure C may not be amended except by another public vote.

Employment

According to the State of California Employment Development Department, the City’s preliminary, estimated unemployment rate for December 2004 was 3.7 percent. The following table shows certain employment statistics for the City and the County for calendar years 1995 through 2004.

CITY OF MORGAN HILL
City and County Employment Statistics
Calendar Years 1994 through 2004 ⁽¹⁾

<u>Year</u>	<u>City</u>			<u>County</u>
	<u>Labor Force</u>	<u>Employed</u>	<u>Unemployment Rate</u>	<u>Unemployment Rate</u>
1995	12,960	12,460	3.9%	4.9%
1996	13,460	13,080	2.8	3.6
1997	14,100	13,770	2.4	3.0
1998	14,390	14,030	2.5	3.2
1999	14,480	14,140	2.4	3.0
2000	15,190	14,960	1.5	2.0
2001	15,070	14,530	3.6	4.6
2002	14,130	13,180	6.7	8.5
2003	13,410	12,540	6.5	8.2
2004 ⁽²⁾	12,920	12,450	3.7	4.7

(1) Figures represent the 12-month average for each such year, except for 2004.

(2) Based on the preliminary estimates for December 2004; report for 2004 annual average not yet available.

Source: State of California, Employment Development Department.

The following table lists the major area employers.

CITY OF MORGAN HILL
Major Area Employers
as of December 2004

<u>Company</u>	<u>Product/Service</u>	<u>Full-Time Employees</u>
Morgan Hill Unified School District	Education	869
Anritsu Company	Microwave testing equipment	674
Hospira Inc.	Electronic hospital products	610
Comcast Cable Communications	Cable provider	400
Cloverleaf Construction	Construction contractor	357
E.D.O.	Electronic warfare systems	300
Fox Racing	Off-road sports apparel manufacturer	285
Paramit Corporation	Semiconductor manufacturing	240
Thomas Kinkaid Company	Art marketing, products and sales	225
Safeway	Grocery store	172

Source: City of Morgan Hill.

Commerce; General City Revenues

The table shows the dollar volume of taxable transactions in the City from 1999 through 2003:

CITY OF MORGAN HILL Taxable Transactions Calendar Years 1999 through 2003 (in Thousands of Dollars)

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Retail Outlets					
Apparel stores	\$ 1,779	\$ 1,962	\$ 3,731	\$ 7,264	
General merchandise stores	68,144	70,090	73,234	70,762	
Food stores	22,566	23,892	24,531	23,831	
Eating and drinking places	38,394	39,946	41,530	39,152	
Home furnishing and appliances	9,793	13,417	11,470	9,996	
Building materials and farm	10,506	9,321	7,874	6,320	
Auto dealers and supplies	27,266	32,521	39,229	-- ⁽¹⁾	
Service stations	30,141	34,763	33,375	41,076	
Other retail stores	<u>59,995</u>	<u>65,523</u>	<u>61,322</u>	<u>99,549</u> ⁽¹⁾	
Subtotal	268,584	291,435	296,296	297,950	
All Other Outlets	<u>107,979</u>	<u>148,507</u>	<u>153,486</u>	<u>100,118</u>	
All Outlets	<u>\$376,563</u>	<u>\$439,942</u>	<u>\$449,782</u>	<u>\$398,068</u>	

⁽¹⁾ Figure omitted because its publication would result in the disclosure of confidential information. To the extent possible, sales are included in "Other retail stores."

Source: State of California, Board of Equalization.

The following table presents the City's general governmental revenues, categorized by source, from fiscal years 2000 through 2004.

CITY OF MORGAN HILL City General Governmental Revenue Fiscal Years 2000 through 2004

<u>Fiscal Year</u>	<u>Property Tax</u>	<u>Sales Taxes</u>	<u>Franchise, Hotel and Other Taxes</u>	<u>Funding from Other Gov'ts</u>	<u>License Service Charges</u>	<u>Interest Fines and Other</u>	<u>Total</u>
2000	\$17,655,775	\$4,454,774	\$2,525,798	\$3,000,557	\$5,033,724	\$4,441,596	\$37,112,224
2001	18,431,805	5,532,132	2,803,261	6,628,611	8,032,803	6,498,641	47,927,253
2002	19,454,298	4,870,295	2,443,461	3,316,144	6,769,058	4,947,817	41,801,073
2003	24,226,642	4,636,927	2,401,341	3,140,343	7,585,951	3,223,115	45,214,319
2004 ⁽¹⁾	24,932,255	4,070,030	3,154,457	2,832,786	9,352,727	6,918,920	51,261,175

⁽¹⁾ Unaudited.

Source: City of Morgan Hill Annual Financial Reports.

Assessed Value and Construction Activity

The following is a summary of aggregate assessed value of properties in the City and construction permits issued by the City from fiscal years 1999-00 through 2003-04.

CITY OF MORGAN HILL **Assessed Value, Building Permits Issued and Values for Permits Issued** **Fiscal Years 1999-00 through 2003-04**

Fiscal Year	Aggregate Assessed Value	Building Permits	Value of Permits Issued		
			Commercial	Residential	Total
2000	\$2,906,464,530	1,312	\$31,214,390	\$45,608,507	\$76,822,897
2001	3,302,350,285	1,400	106,912,266	48,895,813	155,808,079
2002	3,724,450,362	1,457	22,044,283	73,537,055	95,581,338
2003	4,180,661,418	1,388	22,048,822	78,302,630	100,351,452
2004	4,489,930,909	1,407	36,876,375	84,488,801	121,364,476

Source: City of Morgan Hill, Building Department.

Utilities

Water is supplied by the City's Water Department. Sewage treatment and disposal is provided by the South County Regional Wastewater Authority. Pacific Gas & Electric Company provides natural gas and electric power to the City.

Transportation

The City is well served by area transportation routes. U.S. 101, a major north-south highway, bisects the City, linking the Santa Clara Valley with San Francisco, 70 miles to the north, and with Los Angeles, 380 miles to the South. U.S. 101 through the City is a six-lane freeway. The City also offers easy access to California 152, the east-west connecting route to Interstate 5, and California 156 over Hecker Pass to Watsonville and the coastal highway. Within 30 miles of the City are freeway interchanges with I-280 north to San Francisco, 880 to Oakland or Santa Cruz, and I-680 to Sacramento.

Public transportation to the City includes Greyhound bus service and Santa Clara County Transit, with its dial-a-ride feature on selected routes. The City has been served by the Southern Pacific Railroad for over a century. Rail lines run through the City. Caltrain service through San Jose and the Peninsula to San Francisco began in 1992.

San Jose International Airport, 25 miles to the north, offers a full schedule of passenger and freight flights. Other airports within convenient access to the City include San Francisco International, Oakland International, and Monterey Airport. Three general aviation airports, providing general aviation facilities, are located in San Martin (five miles south), in Hollister (26 miles southeast), and in south San Jose (Reid Hillview, 15 miles north), respectively.

The City is 70 miles south of major deep water seaports at San Francisco and Oakland.

Climate

With a January average low temperature of 41 degrees Fahrenheit and a July average high temperature of 82 degrees Fahrenheit, the City enjoys comfortable weather throughout the year. Annual rainfall is about 14 inches, principally during the winter months. Winds are generally from the northwest at a mean hourly speed of seven miles per hour. Its geographical setting protects the community from most smog.

Low humidity and an average of 345 days of sunshine provide a superb year round growing season for many crops. For years the City has been recognized as a leading agricultural center. Mushrooms, fresh fruits, nuts, prunes, and varietal wine grapes are the principal crops harvested in the area's fields and orchards.

APPENDIX B
REASSESSMENT ENGINEER'S REPORT*

* The following is the preliminary Reassessment Report presented to City Council on the date of adoption of the resolution approving the issuance of the Bonds. It was prepared before the pricing of the Bonds. The final Reassessment Report will be delivered on or before the date of delivery of the Bonds.

APPENDIX C

APPRAISAL FOR SELECTED PARCELS IN THE DISTRICT

APPENDIX D

FORM OF OPINIONS OF BOND COUNSEL

Upon issuance and delivery of the Series 2005A Bonds, Richards Watson & Gershon, A Professional Corporation, Bond Counsel, proposes to render its final approving opinion in substantially the following form:

[Closing Date]

Morgan Hill Financing Authority
17555 Peak Avenue
Morgan Hill, California 95037-4128

Opinion of Bond Counsel

with reference to

\$ _____
Morgan Hill Financing Authority
Reassessment Revenue Bonds
Series 2005A
(Madrone Business Park)

Ladies and Gentlemen:

We have examined (i) a record of proceedings relating to the issuance by the Morgan Hill Financing Authority, a public entity of the State of California (the "Authority") of the above-captioned bonds (the "Series 2005A Bonds"), (ii) the Indenture of Trust, dated as of February 1, 2005 (the "Indenture"), by and between the Authority and The Bank of New York Trust Company, N.A., as trustee (the "Trustee"), and (iii) such other matters of law as we have deemed necessary to enable us to render the opinions expressed herein. As to questions of fact material to this opinion, we have relied upon such certificates and documents without undertaking to verify the same by independent investigation.

The Series 2005A Bonds are issued under and pursuant to the Indenture and the provisions relating to the joint exercise of powers found in Chapter 5 of Division 7 of Title 1 of the Government Code of California, as amended (the "Act"), including the provisions of the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 of the Act. The Series 2005A Bonds are issued concurrently with the Authority's Reassessment Revenue Bonds, Series 2005B (Madrone Business Park) (Taxable) (the "Series 2005B Bonds"). Proceeds from the sale of the Series 2005A Bonds and the Series 2005B Bonds are used to acquire from the City of Morgan Hill (the "City") all of the City's Assessment District 2000-1 (Madrone Business Park), Limited Obligation Refunding Improvement Bonds, Series 2005A and the City's Assessment District 2000-1 (Madrone Business Park), Limited Obligation Refunding Improvement Bonds, Series 2005B (Taxable) (collectively, the "Reassessment Bonds"). The Reassessment Bonds are being issued to effect of refunding of the City's Assessment District 2000-1 (Madrone Business Park) Series A 2000 and Assessment District 2000-1 (Madrone Business Park) Series B 2000 (Taxable).

We are of the opinion that:

1. The Indenture has been duly and lawfully authorized, executed and delivered by the Authority and, assuming due authorization, execution and delivery by the Trustee, is in full force and effect in accordance with its terms and is valid and binding upon the Authority and enforceable in accordance with its terms, and no other authorization for the Indenture is required. The Indenture creates the valid pledge which it purports to create of (i) the Revenues (as defined in the Indenture) and (ii) certain funds established by the Indenture, including the investments, if any, thereof; subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

2. The Authority is duly authorized and entitled to issue the Series 2005A Bonds, and the Series 2005A Bonds have been duly and validly authorized and issued by the Authority in accordance with the Constitution and statutes of the State of California, including the Act, and in accordance with the Indenture. The Series 2005A Bonds constitute the valid and binding obligations of the Authority as provided in the Indenture, are enforceable in accordance with their terms and the terms of the Indenture and are entitled to the benefits of the Act and the Indenture. The Series 2005A Bonds are not an obligation of the State of California, any public agency thereof (other than the Authority), or any member of the Authority and neither the faith and credit nor the taxing power of the State of California or any public agency thereof or any member of the Authority is pledged for the payment of the Series 2005A Bonds. The Authority has no taxing power.

3. Interest on the Series 2005A Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the covenants described below, is excluded from gross income for Federal income tax purposes. The Series 2005A Bonds are not “specified private activity bonds” within the meaning of Section 57(a)(5) of the Internal Revenue Code of 1986, as amended (the “Code”) and, therefore, interest on the Series 2005A Bonds will not be treated as a preference item for purposes of computing the alternative minimum tax imposed by Section 55 of the Code. However, we note a portion of the interest on Series 2005A Bonds owned by corporations may be subject to the Federal alternative minimum tax, which is based in part on adjusted current earnings.

The Code sets forth certain requirements which must be met subsequent to the issuance and delivery of the Series 2005A Bonds for interest thereon to be and remain excluded from gross income for Federal income tax purposes. Noncompliance with such requirements could cause the interest on the Series 2005A Bonds to be included in gross income retroactive to the date of issue of the Series 2005A Bonds. The Authority has covenanted in the Indenture to satisfy, or take such actions as may be necessary to cause to be satisfied, each provision of the Code necessary to maintain the exclusion of the interest on the Series 2005A Bonds from gross income for Federal income tax purposes pursuant to Section 103(a) of the Code.

Certain requirements and procedures contained or referred to in the Indenture and other relevant documents may be changed and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of nationally recognized bond counsel. We express no opinion as to any Series 2005A Bond, or the interest thereon, if any change occurs or action is taken upon the advice or approval of other bond counsel.

Except as stated in the foregoing paragraph numbered 3 and the paragraph immediately following paragraph 3, we express no opinion as to any Federal or state tax consequences of the ownership or disposition of the Series 2005A Bonds.

The opinions expressed in the paragraphs numbered 1 and 2 hereof are qualified to the extent that the enforceability of the Indenture and the Series 2005A Bonds may be limited by any applicable bankruptcy, insolvency, debt adjustment, fraudulent conveyance or transfer, moratorium, reorganization

or other similar laws affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public entities in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents.

The opinions expressed herein are based on an analysis of existing law and cover certain matters not directly addressed thereby. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof, and we have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. We have assumed the genuineness of all documents and signatures presented to us. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in such documents.

Respectfully submitted,

Upon issuance and delivery of the Series 2005B Bonds, Richards Watson & Gershon, A Professional Corporation, Bond Counsel, proposes to render its final approving opinion in substantially the following form:

[Closing Date]

Morgan Hill Financing Authority
17555 Peak Avenue
Morgan Hill, California 95037-4128

Opinion of Bond Counsel

with reference to

\$ _____
Morgan Hill Financing Authority
Reassessment Revenue Bonds
Series 2005B (Madrone Business Park)
(Taxable)

Ladies and Gentlemen:

We have examined (i) a record of proceedings relating to the issuance by the Morgan Hill Financing Authority, a public entity of the State of California (the "Authority") of the above-captioned bonds (the "Series 2005B Bonds"), (ii) the Indenture of Trust, dated as of February 1, 2005 (the "Indenture"), by and between the Authority and The Bank of New York Trust Company, N.A., as trustee (the "Trustee"), and (iii) such other matters of law as we have deemed necessary to enable us to render the opinions expressed herein. As to questions of fact material to this opinion, we have relied upon such certificates and documents without undertaking to verify the same by independent investigation.

The Series 2005B Bonds are issued under and pursuant to the Indenture and the provisions relating to the joint exercise of powers found in Chapter 5 of Division 7 of Title 1 of the Government Code of California, as amended (the "Act"), including the provisions of the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 of the Act. The Series 2005B Bonds are issued concurrently with the Authority's Reassessment Revenue Bonds, Series 2005A (Madrone Business Park) (the "Series 2005A Bonds"). Proceeds from the sale of the Series 2005A Bonds and the Series 2005B Bonds are used to acquire from the City of Morgan Hill (the "City") all of the City's Assessment District 2000-1 (Madrone Business Park), Limited Obligation Refunding Improvement Bonds, Series 2005A and the City's Assessment District 2000-1 (Madrone Business Park), Limited Obligation Refunding Improvement Bonds, Series 2005B (Taxable) (collectively, the "Reassessment Bonds"). The Reassessment Bonds are being issued to effect of refunding of the City's Assessment District 2000-1 (Mardone Business Park) Series A 2000 and Assessment District 2000-1 (Mardone Business Park) Series B 2000 (Taxable).

We are of the opinion that:

1. The Indenture has been duly and lawfully authorized, executed and delivered by the Authority and, assuming due authorization, execution and delivery by the Trustee, is in full force and effect in accordance with its terms and is valid and binding upon the Authority and enforceable in accordance with its terms, and no other authorization for the Indenture is required. The Indenture creates

the valid pledge which it purports to create of (i) the Revenues (as defined in the Indenture) and (ii) certain funds established by the Indenture, including the investments, if any, thereof; subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

2. The Authority is duly authorized and entitled to issue the Series 2005B Bonds, and the Series 2005B Bonds have been duly and validly authorized and issued by the Authority in accordance with the Constitution and statutes of the State of California, including the Act, and in accordance with the Indenture. The Series 2005B Bonds constitute the valid and binding obligations of the Authority as provided in the Indenture, are enforceable in accordance with their terms and the terms of the Indenture and are entitled to the benefits of the Act and the Indenture. The Series 2005B Bonds are not an obligation of the State of California, any public agency thereof (other than the Authority), or any member of the Authority and neither the faith and credit nor the taxing power of the State of California or any public agency thereof or any member of the Authority is pledged for the payment of the Series 2005B Bonds. The Authority has no taxing power.

3. Interest on the Series 2005B Bonds is exempt from personal income taxes of the State of California. We express no opinion regarding the exclusion of interest on the Series 2005B Bonds from gross income for federal income tax purposes.

Except as stated in paragraph numbered 2, we express no opinion as to any Federal or state tax consequences of the ownership or disposition of the Series 2005B Bonds.

The opinions expressed in the paragraphs numbered 1 and 2 hereof are qualified to the extent that the enforceability of the Indenture and the Series 2005B Bonds may be limited by any applicable bankruptcy, insolvency, debt adjustment, fraudulent conveyance or transfer, moratorium, reorganization or other similar laws affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public entities in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents. We have assumed compliance with all agreements and covenants contained in the Indenture.

The opinions expressed herein are based on an analysis of existing law and cover certain matters not directly addressed thereby. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof, and we have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. We have assumed the genuineness of all documents and signatures presented to us. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in such documents.

Respectfully submitted,

APPENDIX E
SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

APPENDIX F

DTC'S BOOK-ENTRY ONLY SYSTEM

The information in this Appendix concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but neither the Authority nor the City takes any responsibility for the accuracy thereof. The Authority and the City give no assurances that (i) DTC, the Direct and Indirect Participants or others will distribute payments of principal, premium (if any) or interest with respect to the Bonds paid to DTC or its nominee as, the registered owner, to the Beneficial Owners, (ii) such entities will distribute redemption notices or other notices, to the Beneficial Owners, or (iii) an error or delay relating thereto will not occur.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for the each maturity of the Bonds of each series, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on

behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds: DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium (if any) and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Authority or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Principal, premium (if any) and interest payments with respect to the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered in accordance with the provisions of the Indenture.

APPENDIX G

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement"), dated February 1, 2005, is executed and delivered, by the **City of Morgan Hill** (the "City"), **NBS Government Finance Group**, as Dissemination Agent, **The Bank of New York Trust Company, N.A.**, as Trustee under the Indenture (hereinafter defined), and **Toeniskoetter & Breeding, Inc. Development**, a California corporation (together with its successors and permitted assigns, "TBI Development"), in connection with the issuance by the Morgan Hill Financing Authority (the "Authority") of its \$_____ Reassessment Revenue Bonds, Series 2004A (Madrone Business Park) (the "Series 2005A Bonds") and \$_____ Reassessment Revenue Bonds, Series 2005B (Madrone Business Park) (Taxable) (the "Series 2005B Bonds," and together with the Series 2005A Bonds, the "Bonds").

The Bonds are being issued pursuant to an Indenture of Trust, dated as of February 1, 2005 (the "Indenture"), by and between the Authority and the Trustee. Proceeds of the Series 2005A Bonds will be used by the Authority to purchase the City's \$_____ Assessment District No. 2000-1 (Madrone Business Park) Limited Obligation Refunding Improvement Bonds, Series 2005A (the "Reassessment 2005A Bonds"). Proceeds of the Series 2005B Bonds will be used by the Authority to purchase the City's \$_____ Assessment District No. 2000-1 (Madrone Business Park) Limited Obligation Refunding Improvement Bonds, Series 2005B (Taxable) (the "Reassessment 2005B Bonds," and together with the Reassessment 2005A Bonds, the "Reassessment Bonds"). The Bonds will be payable solely from Revenues (as defined in the Indenture) and certain funds and accounts held under the Indenture. Revenues consist primarily of amounts received by the Authority from the City as payment on the Reassessment Bonds, which payments are secured by liens of unpaid reassessments on the properties in the City's Assessment District No. 2000-1 (Madrone Business Park) (the "District").

The City, the Trustee, the Dissemination Agent and TBI Development hereby covenant and agree as follows:

Section 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Affiliate" of another Person shall mean, (a) a Person that, directly or indirectly, owns or controls, whether beneficially or as an agent, guardian or other fiduciary, five percent or more of the outstanding voting securities of such other Person, (b) any Person, five percent or more of whose outstanding voting securities are directly or indirectly owned, controlled or held with the power to vote by such other Person, (c) any Person directly or indirectly controlling, controlled by, or under common control of such other Person, or (d) each of such Person's executive officers, directors, joint venturers and general partners. For the purpose of this definition, "control" of a Person shall mean the possession, directly or indirectly, of the power to direct or cause the direction of its management or policies, whether through the ownership of voting securities, by contract or otherwise.

“Annual Report” shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Assumption Agreement” shall mean an agreement by and among any Transferee, the City, the Trustee and Dissemination Agent containing terms substantially similar to this Disclosure Agreement, whereby such Transferee agrees to provide annual reports, setting forth the information described in clauses (i), (ii) and (iii) of Section 4(g) hereof with respect to the property owned by such Transferee or Transferee’s Affiliates in the District.

“Disclosure Representative” shall mean the Finance Director of the City or his or her designee, or such other person as the City shall designate in writing to the Trustee and the Dissemination Agent from time to time.

“Dissemination Agent” shall mean NBS Government Finance Group as the Dissemination Agent hereunder or any successor Dissemination Agent designated in writing by the City and which has filed with the City and the Trustee a written acceptance of such designation.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

“Official Statement” shall mean the final Official Statement, dated _____, 2005, relating to the Bonds.

“Owners” shall mean the registered owners of the Bonds or, if the Bonds are registered in the name of a depository, the beneficial owners of the Bonds.

“Participating Underwriter” shall mean Piper Jaffray & Co., as the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Person” shall mean an individual, a corporation, a partnership, an association, a joint stock company, a trust, any unincorporated organization or a government or political subdivision thereof.

“Repository” shall mean each National Repository and each State Repository.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State Repository” shall mean any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule. As of the date of this Disclosure Agreement, there is no State Repository.

“TBI Affiliate” shall mean TBI Development or an Affiliate of TBI Development.

“Transferee” shall have the meaning given to such term in Section 7(b).

Section 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than February 15 of each year, commencing with the report for the 2004-05 fiscal year, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement, with a copy to the Trustee. Not later than fifteen (15) Business Days prior to said date, the City shall provide to the Dissemination Agent (with a copy to the Trustee), a report that contains all of the information described in Subsections (a) through (f) of Section 4. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if not available by that date. If the City's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c) hereof. The City shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the City and shall have no duty or obligation to review such Annual Report.

(b) Subject to Section 7, TBI Development shall provide a report to the Dissemination Agent (with a copy to the City) no later than December 31 of each year, commencing with the report due December 31, 2005. Such report shall contain all of the information described in clauses (i), (ii) and (iii) of Section 4(g) hereof. Such report may be submitted as a single document or as separate documents comprising a package. TBI Development shall provide a written certification with each such report furnished to the Dissemination Agent to the effect that such report constitutes the report to be furnished under this Disclosure Agreement.

(c) If within fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the Repositories, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the City to determine if the City is in compliance with subsection (a).

(d) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to that effect to the Municipal Securities Rulemaking Board in substantially the form attached hereto as Exhibit A.

(e) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any, and

(ii) if the Annual Report has been furnished to the Dissemination Agent, file a report with the City and the Trustee (if the Dissemination Agent is not the Trustee) certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

Section 4. Content of Annual Reports. The Annual Report shall contain or incorporate by reference the following:

(a) Audited Financial Statements of the City for the most recent fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board, and as further modified according to applicable State law. If the City's audited financial statements are not available at the time the Annual Report is required to be filed pursuant to Section 3(a) hereof, the Annual Report shall contain unaudited financial statements in a format similar to the usual format utilized by the City, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available;

(b) Outstanding principal amount of the Bonds and the balance of the Reserve Account relating to the Bonds, as of the preceding October 1;

(c) Outstanding principal amount of the Reassessment Bonds and the balance of the Redemption Fund relating to the Reassessment Bonds, and all accounts within such fund, if any, as of the preceding October 1;

(d) Information regarding the proposed or completed formation by the City of any assessment districts or community facilities districts that will result in the levy of additional assessment or special taxes on parcels of property within the District;

(e) Information concerning any delinquencies in the payment of Reassessments, including (i) the total amount of delinquencies in the District, both as a dollar amount and as a percentage of the total levy for the fiscal year, and (ii) with respect to any delinquency of an owner which owns land subject to Reassessment, the following information respecting the parcel(s) held by such owner:

(A) the amount delinquent (exclusive of late charges and monthly penalties for reinstatement);

(B) the date (December 10 or April 10) of the first delinquency;

(C) in the event a foreclosure complaint has been filed respecting such delinquent parcel and such complaint has not been dismissed, the date on which the complaint was filed; and

(D) in the event a foreclosure sale has occurred respecting such delinquent parcel, a summary of the results of such foreclosure sale; and

(f) Assessed valuation as shown on the last equalized assessment roll of the County of Santa Clara of all taxable property in the District subject to Reassessment for the then current fiscal year and list of the property owners responsible for greater than 5 percent of the remaining Reassessment lien.

(g) To the extent that such information has been furnished to the Dissemination Agent pursuant to Section 3(b):

(i) A description of any long-term lease (*i.e.*, any lease with a term of three years or longer) then in effect or any sales of fee title which took place during the most recent fiscal year with respect to any parcel (or a portion thereof) in the District that is owned by an TBI Affiliate, including the identification of the lessee or purchaser and the approximate number of acres leased or sold;

(ii) The number of acres of land in the District owned by each TBI Affiliate as of the end of the most fiscal year;

(iii) Any pending litigation or proceedings by governmental agencies against any TBI Affiliate, which if the decision, ruling or outcome thereof turns out to be unfavorable to the TBI Affiliate, would prevent one or more TBI Affiliates from paying special taxes or assessments, including the Reassessments, on their property in the District.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The City shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- (7) Modifications to rights of Bond Owners;
- (8) Optional, contingent or unscheduled Bond calls;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the Bonds;
- (11) Rating changes.

(b) The Trustee shall, promptly upon obtaining actual knowledge of the occurrence of any of the Listed Events contact the Disclosure Representative, inform such person of the event, and request that the City promptly notify the Dissemination Agent in writing whether the Listed Event is material and, if so, whether or not to report the event pursuant to subsection (f), and promptly notify the Trustee in writing whether or not to report the event to the Owners (unless notice to the Owners is already required by the Indenture). For purposes of this Disclosure Agreement, “actual knowledge” of the occurrence of such Listed Events shall mean actual knowledge by the officer at the Trust Office of the Trustee with regular responsibility for the administration of the Indenture

(c) Whenever the City obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Trustee pursuant to subsection (b) or otherwise, the City shall as soon as possible determine if such event would be material under applicable federal securities law.

(d) If the City determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities law, the City shall promptly notify the Dissemination Agent and the Trustee in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (f) and shall instruct the Trustee to report the occurrence to the Owners of the Bonds affected by the occurrence of such event.

(e) If in response to a request under subsection (b), the City determines that the Listed Event is not material, the City shall so notify the Dissemination Agent and the Trustee in writing and instruct the Dissemination and the Trustee to not report the event.

(f) If the Dissemination Agent has been instructed by the City to report the occurrence of a Listed Event, the Dissemination Agent shall promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and each Repository, with a copy to the Trustee. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds pursuant to the Indenture.

Section 6. Termination of City's Reporting Obligations. The City's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination on the same manner as for a Listed Event under Section 5(c) hereof.

Section 7. Termination of TBI Development's Reporting Obligations; Assumption of TBI Development's Obligations.

(a) TBI Development's obligations under this Disclosure Agreement shall terminate upon the earliest to occur of the following: (i) the legal defeasance, prior redemption or payment in full of all of the Bonds, (ii) subject to Section 7(c), the date that TBI Affiliates, collectively, own less than 25 percent of the land, by area, in the District; or (iii) the date on which all of the Reassessments attributable to the property then owned by TBI Affiliates in the District have been prepaid in full. TBI Development shall give a prompt written notice to the City and the Dissemination Agent of the termination of its obligation under this Disclosure Agreement.

(b) If all or a portion of the property in the District owned by one or more TBI Affiliates is to be sold, assigned or otherwise conveyed to a Person (the "Transferee") that is not a TBI Affiliate, such that, upon such conveyance, the Transferee, together with Affiliates of such Transferee if any, will own more than 25 percent of the land, by area, in the District, TBI Development shall cause to be included in the conveyance agreement a provision that the Transferee shall execute an Assumption Agreement promptly following the closing of escrow for the conveyance.

TBI Development shall promptly notify the City in writing of any conveyance to a Transferee described in the preceding paragraph. Following the close of escrow for the conveyance, the City, the Trustee and the Dissemination Agent shall enter into an Assumption Agreement with the Transferee; provided that the Assumption Agreement shall be in form and substance satisfactory to the City, or is otherwise substantially identical to this Disclosure Agreement. From and after the date on which such Assumption Agreement is executed, the TBI Development shall no longer be required to take the property so conveyed to the Transferee into account in connection with its report to be delivered under Section 3(b).

(c) Notwithstanding any of the foregoing, if following a conveyance of property described in Section 7(b), TBI Affiliates collectively shall own less than 25 percent of the land by area in the District, TBI Development's reporting obligations hereunder shall not terminate pursuant to clause (ii) of Section 7(a) unless and until the Assumption Agreement required by Section 7(b) has been duly executed and delivered by the Transferee.

(d) Except as expressly provided in this Section 7, TBI Development may not assign its obligations hereunder without the prior written consent of the City.

Section 8. Dissemination Agent. The City may, from time to time, appoint or engage a Disseminating Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be NBS Government Finance Group. The Dissemination Agent may resign by giving thirty (30) days written notice to the City and the Trustee.

Any company into which the Dissemination Agent may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Dissemination Agent may sell or transfer all or substantially all of its corporate trust business, shall be the successor to the Dissemination Agent without the execution or filing of any paper or further action anything herein to the contrary notwithstanding.

Section 9. Amendment; Waiver. Notwithstanding any other provision herein to the contrary, any provision in the Disclosure Agreement may be amended or waived (and the Trustee and the Dissemination Agent shall agree to any such amendment or waiver requested by the City, provided that neither the Trustee nor the Dissemination Agent shall be obligated to enter into any amendment or agree to any waiver that modifies or increases its duties or obligations hereunder), provided that the following conditions are satisfied:

(a) the amendment or waiver, if it relates to annual or event information to be provided, is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the City or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances;

(c) the proposed amendment or waiver (i) is approved by Owners of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of Owners, or (ii) does not, in the opinion of the Trustee or nationally recognized bond counsel, materially impair the interest of Owners; and

(d) no amendment increasing or affecting the obligations or duties of the Dissemination Agent or the Trustee shall be made without the consent of either party.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the annual financial information containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be sent to the Repositories.

Section 10. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If Agency chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the City shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. In the event of a failure of the City or TBI Development to comply with any provision of this Disclosure Agreement, the Trustee at the written request of any Participating Underwriter or holders of at least a majority in aggregate amount of Outstanding Bonds, shall, but only to the extent indemnified to its satisfaction from and against any loss, cost, expense or liability of any kind whatsoever, including, without limitation, fees and expenses of its attorneys and additional fees and expenses of the Trustee, or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the City or TBI Development, as applicable, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the City, TBI Development, the Trustee or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to them hereunder and shall not be deemed to be acting in any fiduciary capacity hereunder for the City, the Owners, or any other party. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 13. Beneficiaries. The Disclosure Agreement shall inure solely to the benefit of the City, the Dissemination Agent, the Trustee, TBI Development the Participating Underwriter and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 15. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused their duly authorized representatives to execute and deliver this Disclosure Agreement on the date first written above.

CITY OF MORGAN HILL

By: _____
City Manager

NBS GOVERNMENT FINANCE GROUP
as Dissemination Agent

By: _____
Authorized Representative

**THE BANK OF NEW YORK TRUST
COMPANY, N.A.,**
as Trustee

By: _____
Authorized Representative

TOENISKOETTER & BREEDING, INC.
DEVELOPMENT, a California corporation

By: _____
Authorized Representative

EXHIBIT A

NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD OF
FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Morgan Hill Financing Authority

Name of Bond Issues: \$_____ Reassessment Revenue Bonds, Series 2005A (Madrone Business
Park), and \$_____ Reassessment Revenue Bonds, Series 2005B (Taxable)
(Madrone Business Park),

Date of Issuance: _____, 2005

NOTICE IS HEREBY GIVEN that the City of Morgan Hill (the "City") has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Agreement dated February 1, 2005, executed by and among the City, NBS Government Finance Group, as Dissemination Agent, The Bank of New York Trust Company, N.A., as Trustee, and Toeniskoetter & Breeding, Inc. Development. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

NBS GOVERNMENT FINANCE GROUP
as Dissemination Agent on behalf of the City of
Morgan Hill

By: _____
Name: _____
Title: _____

cc: City of Morgan Hill, Finance Director

\$ _____
**CITY OF MORGAN HILL
ASSESSMENT DISTRICT NO. 2000-1
(MADRONE BUSINESS PARK)
LIMITED OBLIGATION REFUNDING
IMPROVEMENT BONDS
SERIES 2005A**

\$ _____
**CITY OF MORGAN HILL
ASSESSMENT DISTRICT NO. 2000-1
(MADRONE BUSINESS PARK)
LIMITED OBLIGATION REFUNDING
IMPROVEMENT BONDS
SERIES 2005B (TAXABLE)**

BOND PURCHASE AGREEMENT

_____, 2005

City of Morgan Hill
17555 Peak Avenue
Morgan Hill, California 95037

Ladies and Gentlemen:

The Morgan Hill Financing Authority (the “Authority”), acting not as a fiduciary or agent for you, but on behalf of itself, offers to enter into this Bond Purchase Agreement (this “Purchase Agreement”) with the City of Morgan Hill (the “City”), which upon acceptance will be binding upon the Authority and the City. This offer is made subject to (i) the City’s acceptance by the execution of this Purchase Agreement and (ii) withdrawal by the Authority upon notice delivered to the City at any time prior to the City’s acceptance hereof. Unless context clearly requires otherwise, capitalized terms not otherwise defined herein shall have the meaning ascribed to them in the hereinafter mentioned Fiscal Agent Agreement.

Subject to the City’s acceptance hereof and the terms and conditions herein, the Authority will issue and sell its Reassessment Revenue Bonds, Series 2005A (Madrone Business Park) (the “Authority 2005A Bonds”) and Reassessment Revenue Bonds, Series 2005B (Madrone Business Park) (Taxable) (the “Authority 2005B Bonds,” and together with the Authority 2005A Bonds, the “Authority Bonds”). The Authority will use proceeds from the sale of the Authority 2005A Bonds to purchase all of the City’s Assessment District No. 2000-1 (Madrone Business Park) Limited Obligation Refunding Improvement Bonds, Series 2005A (the “Reassessment 2005A Bonds”) and will use the proceeds from the sale of the Authority 2005B Bonds to purchase all of the City’s Assessment District No. 2000-1 (Madrone Business Park) Limited Obligation Refunding Improvement Bonds, Series 2005B (Taxable) (the “Reassessment 2005B Bonds,” and together with the Reassessment 2005A Bonds, the “Reassessment Bonds”). Attached hereto as Exhibit A is a Bond Purchase Contract (the “Authority Bond Purchase Contract”) by and among the City, the Authority and Piper Jaffray & Co., (the “Underwriter”), whereby the Underwriter has agreed to purchase the Authority Bonds upon their issuance. The agreement of the Authority to purchase the Reassessment Bonds hereunder is contingent upon the Underwriter purchasing

the Authority Bonds from the Authority, and upon the City satisfying all of the requirements hereof and performing all conditions precedent, if any, to be performed by the City pursuant to the Authority Bond Purchase Contract.

Section 1. Purchase, Sale and Delivery of the Reassessment Bonds.

(a) Subject to the terms and conditions and in reliance upon the representations, warranties and agreements set forth herein, the Authority hereby agrees to purchase from the City and the City hereby agrees to sell to the Authority all (but not less than all) of the \$_____ in aggregate principal amount of the Reassessment 2005A Bonds, to be dated as of the Closing Date (as hereinafter defined), bearing interest at the rates and maturing on the dates and in the principal amounts set forth in Exhibit B hereto. The purchase price for the Reassessment 2005A Bonds shall be \$_____ (the aggregate principal amount of the Reassessment 2005A Bonds, [less/plus] an original issue [discount/premium] of \$_____, and less a purchaser's discount of \$_____). It is agreed that the Authority shall also retain \$_____ to pay costs of issuance in connection with the Reassessment 2005A Bonds. The maturity schedule and redemption schedule shall be attached as Exhibit B to this Purchase Agreement.

Subject to the terms and conditions and in reliance upon the representations, warranties and agreements set forth herein, the Authority hereby further agrees to purchase from the City and the City hereby agrees to sell to the Authority all (but not less than all) of the \$_____ in aggregate principal amount of the Reassessment 2005B Bonds, to be dated as of the Closing Date (as hereinafter defined), bearing interest at the rates and maturing on the dates and in the principal amounts set forth in Exhibit B hereto. The purchase price for the Reassessment 2005B Bonds shall be \$_____ (the aggregate principal amount of the Reassessment 2005B Bonds, [less/plus] an original issue [discount/premium] of \$_____ and less a purchaser's discount of \$_____). It is agreed that the Authority shall also retain \$_____ to pay costs of issuance in connection with the Reassessment 2005B Bonds. The maturity schedule and redemption schedule shall be attached as Exhibit B to this Purchase Agreement.

The Reassessment Bonds shall be substantially in the form described in, shall be issued and secured under the provisions of, and subject to redemption as provided in, the Fiscal Agent Agreement, to be dated as of February 1, 2005 (the "Fiscal Agent Agreement"), by and between the City and The Bank of New York Trust Company, N.A., as fiscal agent (the "Fiscal Agent"), and the Refunding Act of 1984 for 1915 Improvement Act Bonds, as set forth in Division 11.5 (commencing with Section 9500) of the California Streets and Highways Code (the "1984 Refunding Act"). Pursuant to the Fiscal Agent Agreement and the 1984 Refunding Act, the Reassessment Bonds will be secured by reassessments to be levied by the City against the parcels in Assessment District No. 2000-1 (Madrone Business Park) (the "District"), constituting a first lien and charge upon the real property within the District. The net proceeds of the Reassessment 2005A Bonds will be used to refund all of the City's currently outstanding Assessment District No. 2000-1 (Madrone Business Park) Limited Obligation Improvement Bonds, Series A 2000 (the "Prior 2000A Bonds") and a portion of the Assessment District No. 2000-1 (Madrone Business Park) Limited Improvement Obligation Bonds, Series B 2000 (Taxable) (the "Prior 2000B Bonds," and together with the Prior 2000A Bonds, the "Prior

Bonds”). The net proceeds of the Reassessment 2005B Bonds will be used to refund all of the remaining outstanding Prior 2000B Bonds that are not being refunded by Reassessment 2005A Bonds proceeds. To effect the refunding of the Prior Bonds, the City will also enter into the Escrow Agreement, dated as of February 1, 2005 (the “Escrow Agreement”), by and between the City and U. S. Bank National Association, as Escrow Agent.

(b) Except as the City, the Authority and the Underwriter may otherwise agree, the City will deliver to the Authority, at the offices of Richards Watson & Gershon, A Professional Corporation, as bond counsel (“Bond Counsel”) in Los Angeles, California, or at such other location as may be mutually agreed upon by the Underwriter, the City and the Authority, the documents hereinafter mentioned and the City will deliver to or on the order of the Authority, at a location to be designated by the Authority, the Reassessment Bonds, in definitive form, duly executed by the City and authenticated by the Fiscal Agent in the manner provided for in the Fiscal Agent Agreement, at 8:30 A.M., California time, _____, 2005 (the “Closing Date”), and the Authority will accept such delivery and pay or cause to be paid the purchase price of the Reassessment Bonds as set forth in paragraph (a) of this Section by official bank check or checks, by wire transfer or by other means, in any case payable in federal or other immediately available funds (such delivery and payment being herein referred to as the “Closing”). The Reassessment Bonds shall be in fully registered form and shall be registered in the name of the Authority or in accordance with instructions to be supplied to the City by the Authority prior to the Closing Date.

Section 2. Representations, Warranties and Agreements of the City. The City represents, warrants to, covenants and agrees with, the Authority that:

(a) the City is a municipal corporation duly organized and existing under the Constitution and the laws of the State of California, and has, and on the Closing Date will have, full legal right, power and authority to (i) enter into, execute, deliver and perform its obligations under this Purchase Agreement, the Fiscal Agent Agreement, the Escrow Agreement and the Continuing Disclosure Agreement, dated as of February 1, 2005 (the “Continuing Disclosure Agreement”), by and among the City, NBS Government Finance Group, as Dissemination Agent and The Bank of New York Trust Company, N.A., as Trustee, and Toeniskoetter & Breeding, Inc. Development, a California corporation, (ii) issue the Reassessment Bonds pursuant to the Fiscal Agent Agreement and sell and deliver the Reassessment Bonds to the Authority as provided herein, and (iii) carry out, give effect to and consummate the transactions contemplated by this Purchase Agreement and the Authority Bond Purchase Contract.

(b) The City has complied, and will at the Closing Date be in compliance, in all respects with the 1984 Refunding Act, the Fiscal Agent Agreement, this Purchase Agreement and the Escrow Agreement, and the conditions precedent required to be performed by the City pursuant to the Authority Bond Purchase Contract.

(c) The City Council of the City has duly and validly: (i) adopted each of the City Resolutions (as defined in the Authority Bond Purchase Contract) and approved and authorized the execution and delivery of the Reassessment Bonds, this Purchase Agreement, the Fiscal Agent Agreement, the Escrow Agreement, the Continuing Disclosure Agreement and the Authority Bond Purchase Contract and (ii) authorized and approved the performance by the City

of its obligations contained in, and the taking of any and all action as may be necessary to carry out, give effect to and consummate the transactions contemplated by, each of such documents.

(d) Except as may be required under the “blue sky” or other securities laws of any jurisdiction, all approvals, consents, authorizations, elections and orders of, or filings or registrations with, any governmental authority, board, agency or commission having jurisdiction which would constitute a condition precedent to, or the absence of which would materially adversely affect, the performance by the City of its obligations hereunder and under the Fiscal Agent Agreement, the Reassessment Bonds, the Prior Bonds, the Escrow Agreement and the Continuing Disclosure Agreement and the performance of the conditions precedent to be performed by the City pursuant to the Authority Bond Purchase Contract, have been or will be obtained at the Closing Date and are or will be in full force and effect at the Closing Date.

(e) The Reassessment Bonds are payable from the Reassessment Revenues which have been duly and validly authorized pursuant to the 1984 Refunding Act and the Reassessments will be fixed and levied in an amount which, together with other available funds, is required for the payment of the principal of, and interest on, the Reassessment Bonds when due and payable, all as provided in the Fiscal Agent Agreement.

(f) The Fiscal Agent Agreement creates a valid pledge of, first lien upon and security interest in, the Reassessment Revenues and in the moneys in the Reassessment Fund and the Redemption Fund established pursuant to the Fiscal Agent Agreement, on the terms and conditions set forth in the Fiscal Agent Agreement.

(g) Except as disclosed in the Official Statement (as defined in the Authority Bond Purchase Contract), no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency or public board or body to which the City is a party and has been served with a summons or other notice thereof, is pending, or to the knowledge of the City threatened, in any way affecting the existence of the City or the titles of their officers to their respective offices or seeking to restrain or to enjoin the issuance, sale or delivery of the Reassessment Bonds, the application of the proceeds thereof in accordance with the Fiscal Agent Agreement, or the collection or application of the Reassessment Revenues pledged or to be pledged to pay the principal of, and interest on, the Reassessment Bonds, or the pledge thereof, or in any way contesting or affecting the validity or enforceability of the Reassessment Bonds, the Fiscal Agent Agreement, this Purchase Agreement, the Escrow Agreement, the Continuing Disclosure Agreement, the Authority Bond Purchase Agreement or any action of the City contemplated by any of such documents, or in any way contesting the completeness or accuracy of the Official Statement or the powers of the City or its authority with respect to the Reassessment Bonds, the Prior Bonds, the Fiscal Agent Agreement, this Purchase Agreement, the Escrow Agreement, the Continuing Disclosure Agreement, the Authority Bond Purchase Agreement or any action of the City contemplated by any of such documents, or which contests the exclusion from gross income for federal income tax purposes of interest paid on the Authority 2005A Bonds or the exemption of interest paid on the Authority Bonds from State of California personal income taxation.

(h) The City will furnish such information, execute such instruments and take such other action in cooperation with the Authority and the Underwriter as the Authority or the

Underwriter may reasonably request in order for the Underwriter to qualify the Authority Bonds for offer and sale under the “blue sky” or other securities laws and regulations of such states and other jurisdictions of the United States of America as the Underwriter may designate; provided, however, that the City shall not be required to register as a dealer or broker of securities or to consent to service of process or qualify to do business in any jurisdiction where it is not now so subject. It is understood that such “blue sky” registration is the sole responsibility of the Underwriter.

(i) Any certificate signed by any authorized officer or employee of the City authorized to do so shall be deemed a representation and warranty by the City to the Authority and the Underwriter as to the statements made therein.

(j) The City will apply the proceeds of the Reassessment Bonds in accordance with the Fiscal Agent Agreement and the Escrow Agreement.

(k) Until such time as moneys have been set aside in an amount sufficient to pay all then outstanding Reassessment Bonds at maturity or to the date of redemption if redeemed prior to maturity, plus unpaid interest thereon and premium, if any, to maturity or to the date of redemption if redeemed prior to maturity, the City will faithfully perform and abide by all of the covenants, undertakings and provisions contained in the Fiscal Agent Agreement.

The execution and delivery of this Purchase Agreement by the City shall constitute a representation to the Authority and the Underwriter that the representations and warranties contained in this Section 2 are true as of the date hereof.

Section 3. Conditions to the Obligations of the Authority.

(a) The obligation of the Authority to accept delivery of and pay for the Reassessment Bonds on the Closing Date shall be subject, at the option of the Authority, to the sale of the Authority Bonds, to the accuracy in all material respects of the representations and warranties on the part of the City contained herein, to the accuracy in all material respects of the statements of the officers and other officials of the City made in any certificates or other documents furnished pursuant to the provisions hereof or pursuant to the Authority Bond Purchase Contract, and to the performance by the City of its obligations to be performed hereunder and the conditions precedent to be performed by the City, if any, under the Authority Bond Purchase Contract at or prior to the Closing Date. The obligations of the Authority shall be further subject to the satisfaction of the conditions contained in Section 8 of the Authority Bond Purchase Contract, and such conditions are incorporated herein and made a part hereof.

(b) If the City or the Authority shall be unable to satisfy the conditions to the obligations of the Authority to purchase, accept delivery of and pay for the Reassessment Bonds contained in this Purchase Agreement, or if the obligations of the Authority to purchase, accept delivery of and pay for the Reassessment Bonds shall be terminated for any reason permitted by this Purchase Agreement, this Purchase Agreement shall terminate and neither the Authority nor the City shall be under any further obligation hereunder, except that the respective obligations of the City and the Authority set forth in Section 4 hereof shall continue in full force and effect.

Section 4. Expenses. Whether or not the Authority accepts delivery of and pays for the Reassessment Bonds as set forth herein, it shall be under no obligation to pay, and the City shall pay or cause to be paid out of the proceeds of the Reassessment Bonds or any other legally available funds of the City, all expenses incidental to the performance of the City's obligations hereunder, including but not limited to the cost of printing and delivering the Reassessment Bonds to the Authority, the fees and disbursements of the Authority, Bond Counsel, accountants, engineers, economic consultants and any other experts or consultants retained by the City in connection with the issuance and sale of the Reassessment Bonds.

Section 5. Undertakings of the City. The City agrees to make available to the Authority, at the expense of the City, sufficient copies of its audited financial statements, if any, resolutions of its legislative body with respect to the Reassessment Bonds, the Fiscal Agent Agreement, any amendments or supplements thereto, and other documents relating to the Reassessment Bonds and pertaining to the City, to the extent that such documents are publicly available, as may be reasonably required from time to time for the prompt and efficient performance by the Authority of its obligations hereunder and under the Authority Bond Purchase Contract (except any portion of any such document which, by contract, is not subject to disclosure).

Section 6. Notices. Any notice or other communication to be given to the City under this Purchase Agreement may be given by delivering the same in writing to the City of Morgan Hill, 17555 Peak Avenue, Morgan Hill, California 95037, Attention: City Manager; any notice or other communication to be given to the Authority under this Purchase Agreement may be given by delivering the same in writing to the Morgan Hill Financing Authority, 17555 Peak Avenue, Morgan Hill, California 95037, Attention: Chief Administrative Officer; any notice or other communication to be given to the Underwriter under this Purchase Agreement may be given by delivering the same in writing to Piper Jaffray & Co., 345 California Street, Suite 2200, San Francisco, California 94104, Attention: Richard G. Kiss.

Section 7. Third Party Beneficiary. Inasmuch as the Underwriter is purchasing the Authority Bonds from the Authority and will underwrite and market the Authority Bonds to investors through a public offering, thereby enabling the issuance and sale of the Authority Bonds and the Reassessment Bonds and the refunding of the Prior Bonds, the Underwriter is a third party beneficiary of this Purchase Agreement, and may enforce the same in all respects in the same manner and to the same extent as it may be enforced by the Authority.

Section 8. Parties in Interest. This Purchase Agreement is made solely for the benefit of the City, the Authority and the Underwriter (including any successors or assignees of the Underwriter) and no other person shall acquire or have any right hereunder or by virtue hereof.

Section 9. Survival of Representations and Warranties. The representations and warranties of the City shall not be deemed to have been discharged, satisfied or otherwise rendered void by reason of the Closing and regardless of any investigations made by or on behalf of the Authority or the Underwriter (or statements as to the results of such investigations) concerning such representations and statements of the City and regardless of delivery of and payment for the Reassessment Bonds.

Section 10. Execution in Counterparts. This Purchase Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

Section 11. No Prior Agreements. This Purchase Agreement supersedes and replaces all prior negotiations, agreements and understandings among the parties hereto in relation to the sale of Reassessment Bonds by the City.

Section 12. Effective Date. This Purchase Agreement shall become effective and binding upon the respective parties hereto upon the execution of the acceptance hereof by the City and shall be valid and enforceable as of the time of such acceptance.

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Section 13. Governing Law. The validity, interpretation and performance of this Purchase Agreement shall be governed by the laws of the State of California.

Very truly yours,

MORGAN HILL FINANCING AUTHORITY

By: _____
Treasurer

Accepted:

CITY OF MORGAN HILL

By: _____
City Manager

EXHIBIT A
(Reassessment Bonds Purchase Agreement)

[Copy of Authority Bond Purchase Contract]

EXHIBIT B
(Reassessment Bond Purchase Agreement)

I. Maturity Schedule

- a. Reassessment 2005A Bond Maturities. The Reassessment 2005A Bonds shall mature and become payable on September 2 of each year as follows:

<u>Maturity Date</u> <u>(September 2)</u>	<u>Principal</u>	<u>Interest Rate</u>	<u>Yield</u>
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- b. Reassessment 2005B Bond Maturities. The Reassessment 2005B Bonds shall mature and become payable on September 2 of each year as follows:

<u>Maturity Date</u> <u>(September 2)</u>	<u>Principal</u>	<u>Interest Rate</u>	<u>Yield</u>
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II. Redemption Provisions

- a. Reassessment 2005A Bond Optional Redemption Provisions. The Reassessment 2005A Bonds are subject to redemption prior to their stated maturity dates on any Interest Payment Date, as selected by the City, in integral multiples of \$5,000, at the option of the City from moneys derived by the City from any source or pursuant to Section 3.04(d) of the Fiscal Agent Agreement (*i.e.* from prepayment of Reassessments); provided, that the City agrees that it

will not refund the Reassessment 2005A Bonds on a current basis before March 2, [2010]. The Reassessment 2005A Bonds so called for redemption will be redeemed at the following redemption prices (expressed as percentages of the principal amount of the Reassessment 2005A Bonds to be redeemed), together with accrued interest to the date of redemption:

<u>Redemption Dates</u>	<u>Redemption Price</u>
Prior to March 2, [2010]	103%
March 2, [2010] and September 2, [2010]	
March 2, [2011] and September 2, [2011]	
March 2, [2012] and thereafter	

b. Reassessment 2005B Bond Optional Redemption Provisions. The Reassessment 2005B Bonds are subject to redemption prior to their stated maturity dates on any Interest Payment Date, as selected by the City, in integral multiples of \$5,000, at the option of the City from moneys derived by the City from any source or pursuant to Section 3.04(d) of the Fiscal Agent Agreement (*i.e.* from prepayment of Reassessments); provided, that the City agrees that it will not refund the Reassessment 2005B Bonds on a current basis before March 2, [2010]. The Reassessment 2005B Bonds so called for redemption will be redeemed at the following redemption prices (expressed as percentages of the principal amount of the Reassessment 2005B Bonds to be redeemed), together with accrued interest to the date of redemption:

<u>Redemption Dates</u>	<u>Redemption Price</u>
Prior to March 2, [2010]	103%
March 2, [2010] and September 2, [2010]	
March 2, [2011] and September 2, [2011]	
March 2, [2012] and thereafter	

c. Reassessment 2005A Mandatory Sinking Fund Redemption Provisions. The Reassessment 2005A Bonds maturing on September 2, 20__ and September 2, 20__ are subject to redemption in part by lot from sinking fund payments made by the City, at a redemption price equal to the principal amount thereof to be redeemed with accrued interest thereon to the redemption date, without premium, in the aggregate respective principal amounts and on the respective dates as set forth in the following tables; provided, however, if some but not all of the term Reassessment 2005A Bonds of a maturity have been redeemed pursuant to an optional redemption or an extraordinary mandatory redemption as provided in Section 2.03(b) of the Fiscal Agent Agreement, all future sinking fund payment with respect to such term Reassessment 2005A Bonds will be reduced, to be allocated among such sinking fund payments on a pro rata basis (as nearly as practicable) in integral multiples of \$5,000:

Reassessment 2005A Bonds Maturing on September 2, 20__

<u>Redemption Date</u>	<u>Principal Amount to be Redeemed</u>
------------------------	--

* maturity

Reassessment 2005A Bonds Maturing on September 2, 20__

<u>Redemption Date</u>	<u>Principal Amount to be Redeemed</u>
------------------------	--

* maturity

d. Reassessment 2005B Mandatory Sinking Fund Redemption Provisions. The Reassessment 2005B Bonds maturing on September 2, 20__ and September 2, 20__ are subject to redemption in part by lot from sinking fund payments made by the City, at a redemption price equal to the principal amount thereof to be redeemed with accrued interest thereon to the redemption date, without premium, in the aggregate respective principal amounts and on the respective dates as set forth in the following tables; provided, however, if some but not all of the term Reassessment 2005B Bonds of a maturity have been redeemed pursuant to an optional redemption or an extraordinary mandatory redemption as provided in Section 2.03(b) of the Fiscal Agent Agreement, all future sinking fund payment with respect to such term Reassessment 2005B Bonds will be reduced, to be allocated among such sinking fund payments on a pro rata basis (as nearly as practicable) in integral multiples of \$5,000:

Reassessment 2005B Bonds Maturing on September 2, 20__

<u>Redemption Date</u>	<u>Principal Amount to be Redeemed</u>
------------------------	--

* maturity

Reassessment 2005B Bonds Maturing on September 2, 20

<u>Redemption Date</u>	<u>Principal Amount to be Redeemed</u>
------------------------	--

* maturity

\$ _____ *

**MORGAN HILL FINANCING AUTHORITY
REASSESSMENT REVENUE BONDS
SERIES 2005A
(MADRONE BUSINESS PARK)**

\$ _____ *

**MORGAN HILL FINANCING AUTHORITY
REASSESSMENT REVENUE BONDS
SERIES 2005B
(MADRONE BUSINESS PARK)
(TAXABLE)**

BOND PURCHASE CONTRACT

_____, 2005

Morgan Hill Financing Authority
17555 Peak Avenue
Morgan Hill, California 95037

City of Morgan Hill
17555 Peak Avenue
Morgan Hill, California 95037

Ladies and Gentlemen:

Piper Jaffray & Co. (the "Underwriter") hereby offers to enter into the following agreement with the Morgan Hill Financing Authority (the "Authority") and the City of Morgan Hill (the "City"). Upon the acceptance hereof by you, this offer will be binding upon the Authority, the City and the Underwriter. This offer is made subject to (i) the written acceptance hereof by you and (ii) withdrawal by the Underwriter upon written notice (by telegraph or otherwise) delivered to you at any time prior to the acceptance hereof by you.

1. **Purchase and Sale.** Upon the terms and conditions and upon the basis of the representations, warranties and agreements set forth herein, the Underwriter hereby agrees to purchase from the Authority at the Closing Time on the Closing Date (both as defined herein), and the Authority hereby agrees to sell and deliver to the Underwriter all, but not less than all, of the Authority's Reassessment Revenue Bonds, Series 2005A (the "Series 2005A Bonds") and Reassessment Revenue Bonds, Series 2005B (Taxable) (the "Series 2005 B Bonds" and together with the Series 2005A Bonds, the "Bonds"). The Bonds shall be dated their date of delivery to the Underwriter, shall mature on September 2 in the years shown on Exhibit A hereto, shall bear interest at the rates shown on Exhibit A hereto and shall be subject to redemption in the amounts (or at the redemption prices) and on the dates shown on Exhibit A hereto. Interest on the Bonds shall be payable on September 2, 2005, and semiannually thereafter on March 2 and September 2 of each year to maturity. The aggregate purchase price for the Series 2005A Bonds shall be \$_____, being the \$_____ aggregate principal amount thereof, [less/plus] an original [discount/premium] of \$_____, and less an Underwriter's discount of \$_____. The aggregate purchase price for the Series 2005B Bonds shall be

* Preliminary; subject to change.

\$ _____, being the \$ _____ aggregate principal amount thereof, [less/plus] an original issue [discount/premium] of \$ _____, and less and Underwriter's discount of \$ _____. The date of such payment and delivery is referred to herein as the "Closing Date," the hour and date of such delivery and payment is referred to herein as the "Closing Time," and the other actions contemplated hereby to take place at the time of such payment and delivery being herein sometimes called the "Closing".

2. **The Bonds.** The Bonds shall be issued pursuant to, the provisions of the Constitution and the laws of the State of California including the provisions of the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 of Chapter 5 (commencing with Section 6584), Division 7, Title 1 of the Government Code of the State of California (the "Bond Law"). The Bonds shall be described in, issued and secured pursuant to an Indenture of Trust, dated as of February 1, 2005 (the "Indenture"), by and between the Authority and The Bank of New York Trust Company, N.A., as trustee (the "Trustee") authorizing the issuance of the Bonds. All capitalized terms used but not otherwise defined herein shall have the meanings ascribed to them in the Indenture. Proceeds from the sale of the Bonds will be used to (i) with respect to the proceeds of the Series 2005A Bonds, purchase the City's \$ _____ aggregate principal amount District No. 2000-1 (Madrone Business Park), Limited Obligation Refunding Improvement Bonds, Series 2005A (the "Reassessment 2005A Bonds"), (ii) with respect to the proceeds of the Series 2005B Bonds, purchase the City's \$ _____ aggregate principal amount District No. 2000-1 (Madrone Business Park) Limited Obligation Refunding Improvement Bonds, Series 2005B (Taxable) (the "Reassessment 2005B Bonds" and together with the Reassessment 2005A Bonds, the "Reassessment Bonds"), (iii) make an initial deposit into a reserve account for the Bonds and (iv) pay costs of issuance in connection with the Bonds.

The Reassessment Bonds will be issued under and pursuant to the Refunding Act of 1984 for 1915 Improvement Act Bonds, as set forth in Division 11.5 (commencing with Section 9500) of the California Streets and Highways Code, and a Fiscal Agent Agreement, dated as of February 1, 2005, by and between the City and The Bank of New York Trust Company, N.A., as fiscal agent (the "Fiscal Agent"). Proceeds of the Reassessment 2005A Bonds will be used to refund (i) all of the City's currently outstanding District No. 2000-1 (Madrone Business Park) Limited Obligation Improvement Bonds, Series A 2000 (the "Prior 2000A Bonds") and (ii) a portion of the City's currently outstanding District No. 2000-1 (Madrone Business Park) Limited Obligation Improvement Bonds, Series B 2000 (Taxable), (the "Prior 2000B Bonds," and together with the Prior 2000A Bonds, the "Prior Bonds"). The net proceeds of the Reassessment 2005B Bonds will be used to refund all of the remaining outstanding Prior 2000B Bonds that are not being refunded by Reassessment 2005A Bonds proceeds. To effect the refunding of the Prior Bonds, the City will enter into an Escrow Agreement, dated as of February 1, 2005 (the "Escrow Agreement"), by and between the City and U. S. Bank National Association, as escrow agent (the "Escrow Agent").

To effect the sale of the Reassessment Bonds to the Authority, the City will enter into a Bond Purchase Agreement, dated as of even date herewith (the "Reassessment Bond Purchase Agreement"), by and between the City and the Authority. The Bonds will be secured by Revenues, consisting primarily of debt service payments by the City with respect to the Reassessment Bonds. In connection with the issuance and delivery of the Bonds by the Authority, the City will undertake to provide continuing disclosure as required by Securities

Exchange Commission Rule 15c2-12 pursuant to a Continuing Disclosure Agreement, dated as of February 1, 2005 (the "Continuing Disclosure Agreement"), by and among the City, NBS Government Finance Group, as Dissemination Agent, The Bank of New York Trust Company, N.A., as Trustee and Toeniskoetter & Breeding, Inc. Development, a California corporation ("TBI Development").

The Bonds shall be payable and shall be subject to redemption as provided in the Indenture and shall be as described in the Preliminary Official Statement dated _____, 2005, as supplemented by the Official Statement (defined below). Such Official Statement, including the cover page, inside cover, the appendices thereto, as amended to conform to the terms of this Purchase Contract and with such changes and amendments thereto as have been mutually agreed to by the Authority, the City and the Underwriter, is referred to as the "Official Statement."

Hereinafter, the Indenture, the Reassessment Bond Purchase Agreement, the Official Statement and this Purchase Contract are referred to collectively as the "Authority Documents." The Fiscal Agent Agreement, the Escrow Agreement, the Reassessment Bond Purchase Agreement, the Official Statement, the Continuing Disclosure Agreement and this Purchase Contract are referred to collectively as the "City Documents."

3. **Offering by the Underwriter.** It shall be a condition to the Authority's obligations to sell and to deliver the Bonds to the Underwriter and to the Underwriter's obligation to purchase, to accept delivery of and to pay for the Bonds that the entire principal amount of the Bonds shall be issued, sold and delivered by the Authority and purchased, accepted and paid for by the Underwriter at the Closing. It is understood that the Underwriter proposes to offer the Bonds for sale to the public (which may include selected dealers and special purchasers) at prices or yields as set forth in Exhibit A hereto and on the cover page of the Official Statement. Concessions from the public offering price may be allowed to selected dealers and special purchasers. It is understood that the initial public offering price and concessions set forth in the Official Statement may vary after the initial public offering. It is further understood that the Bonds may be offered to the public at prices other than the par value thereof. The net premium on the sale of the Bonds to the public, if any, shall accrue to the benefit of the Underwriter.

4. **Official Statement, Delivery of Other Documents, Use of Documents.**

(a) The Authority and the City hereby authorize the use by the Underwriter of the Preliminary Official Statement and the Official Statement (including any supplements or amendments thereto), the Authority Documents and the City Documents and the information therein contained, in connection with the public offering and sale of the Bonds.

(b) The Authority shall deliver to the Underwriter, within seven (7) business days from the date hereof, such number of copies of the final Official Statement executed on behalf of and approved for distribution by the Authority and the City as the Underwriter may reasonably request in order for the Underwriter to comply with the rules of the Municipal Securities Rulemaking Board and Rule 15c2-12(b)(4) under the Securities Exchange Act of 1934.

(c) As soon as practicable following receipt thereof, the Underwriter shall deliver the Official Statement, and any supplements or amendments thereto, to a nationally recognized municipal securities information repository.

5. Representations, Warranties and Agreements of the Authority. The Authority represents, warrants and agrees as follows:

(a) The Authority is a joint exercise of powers authority duly organized and validly existing under the laws of the State of California.

(b) The Authority has full legal right, power and authority (i) to enter into the Authority Documents, to sell, issue and deliver the Bonds to the Underwriter as provided herein; and (ii) to carry out and consummate the transactions on its part contemplated by the Authority Documents.

(c) By all necessary official action, the Authority has duly authorized and approved the Authority Documents, has duly authorized and approved the Preliminary Official Statement and the Official Statement, has duly authorized and approved the execution and delivery of, and the performance by the Authority of the obligations in connection with the issuance of the Bonds on its part contained in the Bonds and the Authority Documents and the consummation by it of all other transactions contemplated by the Authority Documents in connection with the issuance of the Bonds.

(d) To the best of the Authority's knowledge, the Authority is not in any material respect in breach of or default under any applicable constitutional provision, law or administrative regulation of any state or of the United States, or any agency or instrumentality of either, or any applicable judgment or decree, or any loan agreement, indenture, bond, note, resolution, agreement (including, without limitation, the Indenture) or other instrument to which the Authority is a party, which breach or default has or may have an adverse effect on the ability of the Authority to perform its obligations under the Authority Documents; and no event has occurred and is continuing which with the passage of time or the giving of notice, or both, would constitute such a default or event of default under any such instrument; and the authentication and delivery of the Bonds, or the execution and delivery of the Authority Documents, and compliance with the provisions on the Authority's part contained therein, will not conflict in any material way with or constitute a material breach of or a material default under any constitutional provision, law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the Authority is a party nor will any such execution, delivery, adoption or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the property or assets of the Authority or under the terms of any such law, regulation or instrument, except as may be provided by the Bonds and the Indenture.

(e) To the best of the Authority's knowledge, all authorizations, approvals, licenses, permits, consents and orders of any governmental authority, legislative body, board, agency or commission having jurisdiction of the matter which are required for the due authorization by, or which would constitute a condition precedent to or the absence of which would materially adversely affect the due performance by, the Authority of its obligations in

connection with the issuance of the Bonds under this Purchase Contract or the Indenture have been duly obtained, except for such approvals, consents and orders as may be required under the Blue Sky or securities laws of any state in connection with the offering and sale of the Bonds; except as described in or contemplated by the Official Statement, all authorizations, approvals, licenses, permits, consents and orders of any governmental authority, board, agency or commission having jurisdiction of the matter which are required for the due authorization by, or which would constitute a condition precedent to or the absence of which would materially adversely affect the due performance by, the Authority of its obligations under the Indenture have been duly obtained.

(f) The Bonds when issued will conform to the descriptions thereof contained in the Official Statement under the captions “INTRODUCTION” and “THE BONDS”; and the Indenture when executed and delivered will conform to the descriptions thereof contained in the Official Statement under the captions “INTRODUCTION,” “THE BONDS,” “SECURITY FOR THE BONDS,” and “APPENDIX E – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.”

(g) The Bonds, when issued, authenticated and delivered in accordance with the Indenture, and sold to the Underwriter as provided herein, will be validly issued and outstanding obligations of the Authority, entitled to the benefits of the Indenture, and upon such issuance and delivery, the Indenture will provide, for the benefit of the owners from time to time of the Bonds, the legally valid and binding pledge of and lien and security interest it purports to create.

(h) As of the date hereof, there is no action, suit, proceeding, inquiry or investigation, notice of which has been served on the Authority, at law or in equity before or by any court, government agency, public board or body, pending or to the best knowledge of the officer of the Authority executing this Purchase Contract, threatened against the Authority, affecting the existence of the Authority or the titles of its officers to their respective offices, or affecting or seeking to prohibit, restrain or enjoin the sale, issuance or delivery of the Bonds or the pledge and lien on the Revenues pursuant to the Indenture, or contesting or affecting as to the Authority the validity or enforceability of the Bond Law, the Bonds, or the Authority Documents or contesting the tax-exempt status of interest on the Series 2005A Bonds, or contesting the completeness or accuracy of the Preliminary Official Statement or the Official Statement, or contesting the powers of the Authority for the issuance of the Bonds, or the execution and delivery or adoption by the Authority of the Authority Documents, or in any way contesting or challenging the consummation of the transactions contemplated hereby or thereby; nor, to the best knowledge of the Authority, is there any basis for any such action, suit, proceeding, inquiry or investigation, wherein an unfavorable decision, ruling or finding would materially adversely affect the validity of the Bond Law, as to the Authority, or the authorization, execution, delivery or performance by the Authority of the Bonds, or the Authority Documents.

(i) The Authority will furnish such information, execute such instruments and take such other action in cooperation with the Underwriter as the Underwriter may reasonably request in order to (i) qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriter may designate; (ii) determine the eligibility of the Bonds for investment under the laws of such states and other jurisdictions; provided, however, that the Authority shall not be required to

execute a general or special consent to service of process or qualify to do business in connection with any such qualification or determination in any jurisdiction; provided, further, that the Underwriter shall bear all costs in connection with the Authority's action under (i) and (ii) herein; and (iii) assure or maintain the tax-exempt status of the interest on the Series 2005A Bonds.

(j) As of the date thereof, the Preliminary Official Statement does not, except for the omission of certain information permitted to be omitted in accordance with Rule 15c2-12, contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein with respect to the Authority, in light of the circumstances under which they were made, not misleading.

(k) At the time of the Authority's acceptance hereof, and (unless an event occurs of the nature described in paragraph (m) of this Section 5) at all times subsequent thereto up to and including the date of the Closing, the Official Statement does not and will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; provided, however, that these representations and warranties of the Authority shall apply only to the information contained in the Official Statement relating to the Authority.

(l) If the Official Statement is supplemented or amended pursuant to paragraph (m) of this Section 5, at the time of each supplement or amendment thereto and (unless subsequently again supplemented or amended pursuant to such paragraph) at all times subsequent thereto up to and including the Closing Date, the Official Statement as so supplemented or amended will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; provided, however, that these representations and warranties of the Authority shall apply only to the information contained in the Official Statement relating to the Authority.

(m) If between the date of this Purchase Contract and that date which is 25 days after the End of the Underwriting Period (as determined in accordance with Section 14 hereof) any event known to the Authority shall occur affecting the Authority which might adversely affect the marketability of the Bonds or the market prices thereof, or which might cause the Official Statement, as then supplemented or amended, to contain any untrue statement of a material fact or to omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, the Authority shall notify the Underwriter thereof, and if in the opinion of the Underwriter such event requires the preparation and publication of a supplement or amendment to the Official Statement, the Authority will at its expense prepare and furnish to the Underwriter a reasonable number of copies of such supplement to, or amendment of, the Official Statement in a form and in a manner approved by the Underwriter.

(n) The Authority will refrain from taking any action, or permitting any action to be taken, with regard to which the Authority may exercise control, that results in the loss of the tax-exempt status of the interest on the Series 2005A Bonds.

(o) Any certificate signed by any officer of the Authority and delivered to the Underwriter pursuant to the Authority Documents or any document contemplated thereby, shall be deemed a representation and warranty by the Authority to the Underwriter as to the statements made therein.

(p) The Authority will cause the proceeds from the sale of the Bonds to be paid to the Trustee for the purposes specified in the Indenture and the Official Statement. So long as any of the Bonds are outstanding and except as may be authorized by the Indenture, the Authority will not issue or sell any bonds or other obligations, other than the Bonds sold thereby, the interest on and premium, if any, or principal of which will be payable from Revenues pledged to the payment of the Bonds.

(q) The Authority shall honor all other covenants on its part contained in the Authority Documents which are incorporated herein and made a part of this Purchase Contract.

6. Representations, Warranties and Agreements of the City. The City represents, warrants and agrees as follows:

(a) The City is a municipal corporation duly organized and validly existing under the laws of the State of California.

(b) The City has full legal right, power and authority to enter into and to carry out the transactions on its part contemplated by the City Documents.

(c) By all necessary official action, the City has duly authorized and approved the City Documents, has duly authorized and approved the Preliminary Official Statement and the Official Statement, has duly authorized and approved the execution and delivery of, and the performance by the City of the obligations in connection with the issuance of the Bonds and the Reassessment Bonds on its part contained in the City Documents and the consummation by it of all other transactions contemplated by the City Documents in connection with the issuance of the Bonds and the Reassessment Bonds.

(d) To the best of the City's knowledge, the City is not in any material respect in breach of or default under any applicable constitutional provision, law or administrative regulation of any state or of the United States, or any agency or instrumentality of either, or any applicable judgment or decree, or any loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the City is a party, which breach or default has or may have an adverse effect on the ability of the City to perform its obligations under the City Documents; and no event has occurred and is continuing which with the passage of time or the giving of notice, or both, would constitute such a default or event of default under any such instrument; and the execution and delivery of the City Documents, and compliance with the provisions on the City's part contained therein, will not conflict in any material way with or constitute a material breach of or a material default under any constitutional provision, law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, resolution, agreement or other instrument to which the City is a party nor will any such execution, delivery, adoption or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the property or assets of the City

or under the terms of any such law, regulation or instrument, except as may be provided by the City Documents.

(e) To the best of the City's knowledge, all authorizations, approvals, licenses, permits, consents and orders of any governmental authority, legislative body, board, agency or commission having jurisdiction of the matter which are required for the due authorization by, or which would constitute a condition precedent to or the absence of which would materially adversely affect the due performance by, the City of its obligations in connection with the City Documents have been duly obtained, except for such approvals, consents and orders as may be required under the Blue Sky or securities laws of any state in connection with the offering and sale of the Bonds; except as described in or contemplated by the Official Statement, all authorizations, approvals, licenses, permits, consents and orders of any governmental authority, board, agency or commission having jurisdiction of the matter which are required for the due authorization by, or which would constitute a condition precedent to or the absence of which would materially adversely affect the due performance by, the City of its obligations under the City Documents have been duly obtained.

(f) The City Documents when executed and delivered will conform to the descriptions thereof contained in the Official Statement under the captions "INTRODUCTION," "SECURITY FOR THE BONDS" and "APPENDIX E – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

(g) At or prior to the Closing, the City shall have duly authorized, executed and delivered the Continuing Disclosure Agreement, which complies with the provisions of Rule 15c2-12(b)(5) and which shall be substantially in the form described in the Official Statement.

(h) The City is in full compliance with all of its prior written continuing disclosure undertakings entered into pursuant to the provisions of Rule 15c2-12(b)(5).

(i) As of the date hereof, there is no action, suit, proceeding, inquiry or investigation, notice of which has been served on the City, at law or in equity before or by any court, government agency, public board or body, pending or to the best knowledge of the officer of the City executing this Purchase Contract, threatened against the City, affecting the existence of the City or the titles of its officers to their respective offices, or affecting or seeking to prohibit, restrain or enjoin the sale, issuance or delivery of the Bonds or the Reassessment Bonds, or the pledge and lien on the Revenues with respect to the Bonds pursuant to the Indenture, or the pledge and lien on the Reassessment Revenues (as defined in the Fiscal Agent Agreement) with respect to the Reassessment Bonds pursuant to the Fiscal Agent Agreement or contesting or affecting as to the City the validity or enforceability of the Bond Law, the Bonds, the Reassessment Bonds or the City Documents or contesting the tax-exempt status of interest on the Series 2005A Bonds, or contesting the completeness or accuracy of the Preliminary Official Statement or the Official Statement, or the execution and delivery or adoption by the City of the City Documents, or in any way contesting or challenging the consummation of the transactions contemplated hereby or thereby; nor, to the best knowledge of the City, is there any basis for any such action, suit, proceeding, inquiry or investigation, wherein an unfavorable decision, ruling or finding would materially adversely affect the authorization, execution, delivery or performance by the City of the City Documents.

(j) The City will furnish such information, execute such instruments and take such other action in cooperation with the Underwriter as the Underwriter may reasonably request in order (i) to qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriter may designate; (ii) to determine the eligibility of the Bonds for investment under the laws of such states and other jurisdictions, and will use its best efforts to continue such qualifications in effect so long as required for the distribution of the Bonds; provided, however, that the City shall not be required to execute a general or special consent to service of process or qualify to do business in connection with any such qualification or determination in any jurisdiction; provided, further, that the Underwriter shall bear all costs in connection with the City's action under (i) and (ii) herein; and (iii) assure or maintain the tax-exempt status of the interest on the Series 2005A Bonds.

(k) As of the date thereof, the Preliminary Official Statement did not, except for the omission of certain information permitted to be omitted in accordance with Rule 15c2-12, contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(l) At the time of the City's acceptance hereof, and (unless an event occurs of the nature described in paragraph (n) of this Section 6) at all times subsequent thereto up to and including the Closing Date, the Official Statement does not and will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(m) If the Official Statement is supplemented or amended pursuant to paragraph (n) of this Section 6, at the time of each supplement or amendment thereto and (unless subsequently again supplemented or amended pursuant to such paragraph) at all times subsequent thereto up to and including the Closing Date, the Official Statement as so supplemented or amended will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; provided, however, that these representations and warranties of the City shall apply only to the information contained in the Official Statement relating to the City.

(n) If between the date of this Purchase Contract and that date which is 25 days after the End of the Underwriting Period (as determined in accordance with Section 14 hereof) any event known to the City shall occur affecting the City which might adversely affect the marketability of the Bonds or the market prices thereof, or which might cause the Official Statement, as then supplemented or amended, to contain any untrue statement of a material fact or to omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, the City shall notify the Underwriter thereof, and if in the opinion of the Underwriter such event requires the preparation and publication of a supplement or amendment to the Official Statement, the City will, in conjunction with and at the expense of the Authority, prepare and furnish to the Underwriter a reasonable number of copies of such supplement to, or amendment of, the Official Statement in a form and in a manner approved by the Underwriter.

(o) The City will refrain from taking any action, or permitting any action to be taken, with regard to which the City may exercise control, that results in the loss of the tax-exempt status of the interest on the Series 2005A Bonds.

(p) Any certificate signed by any officer of the City and delivered to the Underwriter pursuant to the City Documents or any document contemplated thereby shall be deemed a representation and warranty by the City to the Underwriter as to the statements made therein.

(q) The City shall honor all other covenants on its part contained in the City Documents which are incorporated herein and made a part of this Purchase Contract.

7. **Closing.** At 8:30 a.m., California time, on _____, 2005, or on such earlier date or as soon thereafter as practicable, as may be mutually agreed upon by the Authority, the City and the Underwriter, the Authority will, subject to the terms and conditions hereof, cause the Trustee to deliver to The Depository Trust Company ("DTC") in New York, New York, on behalf of the Underwriter, the Bonds, in definitive form duly executed by the Trustee, together with the other documents hereinafter mentioned; and the Underwriter will accept such delivery to DTC and will pay the purchase price of the Bonds in Los Angeles, California, as set forth in Paragraph 1(a) hereof by delivering Federal or other immediately available funds in the amount of such purchase price to the Trustee. The Bonds shall be prepared in fully registered form without coupons in authorized denominations and registered in the name of or at the direction of the Underwriter.

8. **Closing Conditions.** The Underwriter has entered into this Purchase Contract in reliance upon the representations and warranties of the Authority and the City contained herein, and in reliance upon the representations and warranties to be contained in the documents and instruments to be delivered at the Closing and upon the performance by the Authority and the City of their respective obligations hereunder, both as of the date hereof and as of the Closing Date. Accordingly, the Underwriter's obligations under this Purchase Contract to purchase, to accept delivery of and to pay for the Bonds shall be conditioned upon the performance by the Authority and the City of their obligations to be performed hereunder and under such documents and instruments at or prior to the Closing, and shall also be subject to the following additional conditions:

(a) The representations and warranties of the Authority and the City contained herein shall be true, complete and correct on the date hereof and on and as of the Closing Date, as if made on the Closing Date;

(b) At the time of the Closing, the Authority Documents and the City Documents shall be in full force and effect in accordance with their terms and shall not have been amended, modified or supplemented and the Official Statement shall not have been supplemented or amended, except in any such case as may have been agreed to by the Underwriter;

(c) At the time of the Closing, all necessary official action of the Authority, the City and of the other parties thereto relating to the Authority Documents and the City

Documents, respectively, shall have been taken and shall be in full force and effect and shall not have been amended, modified or supplemented in any material respect;

(d) Subsequent to the date hereof, there shall not have occurred any change in or affecting particularly the Authority, the City, the Bonds, the Reassessment Bonds or the Reassessment District, as the foregoing matters are described in the Official Statement, which in the reasonable opinion of the Underwriter materially impairs the investment quality of the Bonds;

(e) At or prior to the Closing, the Underwriter shall have received copies of each of the following documents:

(1) Each of Resolution Nos. _____, _____, _____ and _____ adopted by the City Council on _____, 2005 (collectively, the "City Resolutions"), as certified by the City Clerk of the City;

(2) Resolution No. _____ adopted by the governing body of the Authority on _____, 2005 (the "Authority Resolution"), as certified by the Secretary of the Authority;

(3) The Indenture, executed by the Authority and the Trustee;

(4) The Fiscal Agent Agreement, executed by the City and the Fiscal Agent;

(5) The Escrow Agreement, executed by the City and the Escrow Agent;

(6) The Reassessment Bond Purchase Agreement, executed by the Authority and the City;

(7) The Official Statement and each supplement or amendment, if any, thereto, executed by a designated officer of the Authority and a designated officer of the City;

(8) The Continuing Disclosure Agreement, substantially in the form described in the Official Statement.

(9) Certificates of the Authority and the City, respectively, with respect to the matters described in Sections 5 and 6 and in paragraphs (a), (b), (c) and (d) of this Section 8;

(10) An opinion, (the "Final Approving Legal Opinion") dated the Closing Date and addressed to the Authority, of Richards, Watson & Gershon, A Professional Corporation ("Bond Counsel") in the form set forth in Appendix D of the Official Statement, accompanied by a reliance letter from Bond Counsel to the effect that such opinion may be relied upon by the Underwriter with the same effect as if such opinion were addressed to it;

(11) A supplemental opinion of Bond Counsel, dated the Closing Date and addressed to the Underwriter in substantially the form attached hereto as Exhibit B;

(12) An opinion, dated the Closing Date and addressed to the Underwriter, of Helene Leichter, General Counsel of the Authority, in substantially the form attached hereto as Exhibit C;

(13) An opinion, dated the Closing Date and addressed to the Underwriter, of Helene Leichter, City Attorney of the City, in substantially the form attached hereto as Exhibit D;

(14) An opinion, dated the Closing Date and addressed to the Underwriter, of Richards, Watson & Gershon, A Professional Corporation, as Disclosure Counsel for the Authority, in substantially the form attached hereto as Exhibit E;

(15) A certificate of The Bank of New York Trust Company, N.A. (“BNY”), in its capacities as Trustee, Fiscal Agent and Dissemination Agent to the effect that:

(i) Due Organization and Existence – BNY is a national banking corporation duly organized and existing as under the laws of the United States of America, having the full power and authority to (A) authenticate and deliver the Bonds to the Underwriter pursuant to the terms of the Indenture; (B) authenticate and deliver the Reassessment Bonds to the Authority pursuant to the terms of the Fiscal Agent Agreement; and (C) enter into and perform its duties under the Indenture, the Fiscal Agent Agreement and the Continuing Disclosure Agreement (collectively, the “BNY Documents”);

(ii) Due Authorization; Valid and Binding Obligations – BNY has been duly authorized to enter into each of BNY Documents, and to authenticate and deliver the Bonds and the Reassessment Bonds; and

(iii) No Conflict – To the best of the knowledge of BNY, after due investigation, the execution and delivery by BNY of BNY Documents, and the authentication and delivery of the Bonds and the Reassessment Bonds, and compliance with the terms thereof will not, in any material respect, conflict with, or result in a violation or breach of, or constitute a default under, any loan agreement, indenture, bond, note, resolution or any other agreement or instrument to which BNY is a party or by which it is bound, or any law or any rule, regulation, order or decree of any court or governmental agency or body having jurisdiction over BNY or any of its activities or properties, or (except with respect to the liens of the Indenture and the Fiscal Agent Agreement) result in the creation or imposition of any lien, charge or other security interest or

encumbrance of any nature whatsoever upon any of the property or assets of BNY.

(iv) No Litigation – To the best of the knowledge of BNY, there is no litigation that has been served on BNY or threatened against or affecting BNY to restrain or enjoin BNY's participation in, or in any way contesting the powers of BNY with respect to the transactions contemplated by the Bonds, the Reassessment Bonds and BNY Documents;

(16) An opinion of counsel to BNY to the effect that:

(i) Due Organization and Existence – The BNY has been duly organized and is validly existing and in good standing as a national banking association under the laws of the United States of America with full corporate power to undertake the trusts of the Indenture and to enter into BNY Documents;

(ii) Corporate Action – BNY has duly authorized, executed and delivered BNY Documents, and by all proper corporate action has authorized the acceptance of the duties and obligations of BNY Documents and to authorize in such capacity the authentication and delivery of the Bonds and the Reassessment Bonds;

(iii) Due Authorization, Execution and Delivery – Assuming due authorization, execution and delivery by the other parties thereto, each of BNY Documents is the valid, legal and binding agreement of BNY Documents, enforceable in accordance with its terms, except as such enforcement may be limited by bankruptcy, insolvency, reorganization or other similar laws affecting the enforcement of creditors' rights in general and by general equity principles (regardless of whether such enforcement is considered in a proceeding in equity or at law); and

(iv) Consents – Exclusive of federal or state securities laws and regulations, to the best of such counsel's knowledge after reasonable inquiry and investigation, other than routine filings required to be made with governmental agencies in order to preserve BNY's authority to perform a trust business (all of which routine filings such counsel believes, after reasonable inquiry and investigation, to have been made), no consent, approval, authorization or other action by any governmental or regulatory authority having jurisdiction over BNY is or will be required for the execution and delivery by BNY of BNY Documents or the execution and delivery of the Bonds or the Reassessment Bonds;

(17) A certified copy of the excerpts of the Bylaws of BNY authorizing the execution and delivery of certain documents by certain officers of BNY,

which Bylaws authorize the execution and delivery of BNY Documents, and the authentication and delivery of the Bonds and the Reassessment Bonds;

(18) A certified copy of the excerpts of the Bylaws or resolution, or both the Bylaws and resolution, of the Escrow Agent authorizing the execution and delivery of certain documents by certain officers of the Escrow Agent, which Bylaws or resolution authorizes the execution and delivery of the Escrow Agreement;

(19) The final appraisal report (the "Appraisal") for the District prepared by Carneghi-Blum & Partners, Inc. of San Francisco, California (the "Appraiser"), setting forth the appraised value of certain undeveloped property within the District;

(20) A certificate of the Appraiser, dated the Closing Date, to the effect that:

(i) The Appraiser's consent to (A) the reproduction of the Appraisal in Appendix C of the Preliminary Official Statement and the Official Statement and (B) the references to the Appraisal made in the Official Statement is confirmed;

(ii) as of the date of the Official Statement and as of the Closing Date, the Appraisal and the statements in the Official Statement under the caption "THE DISTRICT," insofar as such statements purport to summarize the Appraisal, are accurate in all material respects and do not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements contained therein, in the light of the circumstances under which they were made, not misleading; and

(iii) the conclusions as to the value of the appraised property set forth in the Appraisal are supportable as of the date of thereof and as of the Closing Date.

(21) A certificate from TBI Development, dated as of the Closing Date, substantially in the form of that attached hereto as Exhibit F;

(22) Transcripts of all proceedings relating to the authorization and issuance of the Bonds (if there are any other those already listed above) certified by the Secretary or an Assistant Secretary of the Authority; and

(23) Such additional legal opinions, certificates, instruments and other documents as the Underwriter may reasonably request to evidence the truth and accuracy, as of the date hereof and as of the Closing Date, of the Authority's and the City's representations and warranties contained herein and of the statements and information contained in the Official Statement and the due performance or

satisfaction by the Authority and the City on or prior to the Closing Date of all the agreements then to be performed and conditions then to be satisfied by it.

All the opinions, letters, certificates, instruments and other documents mentioned above or elsewhere in this Purchase Contract shall be deemed to be in compliance with the provisions hereof if, but only if, they are in form and substance satisfactory to Bond Counsel and the Underwriter. The opinions and certificates referred to in this paragraph (e) and set forth in the Exhibits hereto or as an Appendix to the Official Statement shall be deemed satisfactory provided they are substantially in the forms attached as such Exhibits or Appendix.

If the Authority and the City shall be unable to satisfy the conditions to the obligations of the Underwriter to purchase, to accept delivery of and to pay for the Bonds contained in this Purchase Contract, or if the obligations of the Underwriter to purchase, to accept delivery of and to pay for the Bonds shall be terminated for any reason permitted by this Purchase Contract, this Purchase Contract shall terminate and neither the Underwriter nor the Authority nor the City shall be under any further obligation hereunder.

9. **Termination.** The Underwriter shall have the right to terminate the Underwriter's obligations under this Purchase Contract to purchase, to accept delivery of and to pay for the Bonds by notifying the Authority, in writing or by telegram, of their election to do so, if, after the execution hereof and prior to the Closing:

(a) The United States has become engaged in hostilities which have resulted in a declaration of war or a national emergency affecting the normal operation of the government of, or in the financial community in, the United States in a manner that, in the reasonable judgment of the Underwriter, makes it impracticable for the Underwriter to market the Bonds or enforce the contracts for sale of the Bonds;

(b) There shall have occurred the declaration of a general banking moratorium by any authority of the United States or the States of New York or California;

(c) An event shall have occurred or been discovered as described in paragraph (m) of Section 5 or paragraph (n) of Section 6 hereof which, in the reasonable opinion of the Underwriter, requires the preparation and publication of disclosure material or a supplement or amendment to the Official Statement, and (i) the Authority or the City refuses to prepare and furnish such disclosure material, or supplement or amendment to the Official Statement, or (ii) in the reasonable judgment of the Underwriter, the occurrence or discovery of such event materially and adversely affect the marketability of the Bonds or render the enforcement of contracts for sale of the Bonds impracticable;

(d) Any legislation, ordinance, rule or regulation shall be introduced in, or be enacted by any governmental body, department or agency in the State of California, or a decision by any court of competent jurisdiction within the State of California shall be rendered which, in the Underwriter's reasonable opinion, materially adversely affects the market price of the Bonds;

(e) Legislation shall be introduced, by amendment or otherwise, or be enacted by the House of Representatives or the Senate of the Congress of the United States, or a decision by a court of the United States shall be rendered, or a stop order, ruling, regulation or official

statement by or on behalf of the Securities and Exchange Commission or other governmental agency having jurisdiction of the subject matter shall be made or proposed, to the effect that the issuance, offering or sale of obligations of the general character of the Bonds, or the Bonds, as contemplated hereby or by the Official Statement, is or would be in violation of any provision of the Securities Act of 1933, as amended and as then in effect, or the Securities Exchange Act of 1934, as amended and as then in effect, or the Trust Indenture Act of 1939, as amended and as then in effect, or with the purpose or effect of otherwise prohibiting the issuance, offering or sale of obligations of the general character of the Bonds, or the Bonds, as contemplated hereby or by the Official Statement;

(f) Additional material restrictions not in force as of the date hereof shall have been imposed upon trading in securities generally by any governmental authority or by any national securities exchange;

(g) The New York Stock Exchange, or other national securities exchange or association or any governmental authority, shall impose as to the Bonds, or obligations of the general character of the Bonds, any material restrictions not now in force, or increase materially those now in force, with respect to the extension of credit by or the charge to the net capital requirements of broker-dealers;

(h) Trading in securities on the New York Stock Exchange or the American Stock Exchange shall have been suspended or limited or minimum prices have been established on either such exchange; or

(i) Any action shall have been taken by any government in respect of its monetary affairs which, in the reasonable opinion of the Underwriter, has a material adverse effect on the United States securities market, rendering the marketing and sale of the Bonds, or enforcement of sale contracts with respect thereto impracticable.

If this Purchase Contract shall be terminated pursuant to Section 8 or this Section 9, or if the purchase provided for herein is not consummated because any condition to the Underwriter's obligation hereunder is not satisfied or because of any refusal, inability or failure on the part of the Authority or the City to comply with any of the terms or to fulfill any of the conditions of this Purchase Contract, or if for any reason the Authority or the City shall be unable to perform all of their respective obligations under this Purchase Contract, the Authority and the City shall not be liable to the Underwriter for damages on account of loss of anticipated profits arising out of the transactions covered by this Purchase Contract.

10. Payment of Costs and Expenses. (a) Subject to Subsection (b) below, The Authority or the City, shall pay or reimburse all costs and expenses incident to the sale and delivery of the Bonds to the Underwriter, including, but not limited to: (i) the fees and expenses of the Authority and its Counsel; (ii) the fees and expenses of the City and its Counsel; (iii) the fees and expenses of Bond Counsel and Disclosure Counsel; (iv) all costs and expenses incurred in connection with the preparation and printing of the Bonds; (v) all expenses in connection with the preparation, printing, distribution and delivery of the Preliminary Official Statement, the Official Statement and any amendment or supplement thereto; (vi) the fees and expenses of the Trustee and the Escrow Agent; and (vii) CUSIP Bureau fees.

(b) The Underwriter shall pay CDIAAC, DTC, MSRB, California Public Securities Association and Public Securities Association fees, and all advertising expenses in connection with the public offering of the Bonds.

11. **Representations, Warranties and Agreements to Survive Delivery.** The representations, warranties, indemnities, agreements and other statements of the Authority, the City and the Underwriter or their officers or partners set forth in, or made pursuant to, this Purchase Contract will remain operative and in full force and effect regardless of any investigation made by or on behalf of the Authority, the City or the Underwriter or any controlling person and will survive delivery of and payment for the Bonds.

12. **Notices.** Any notice or other communication to be given under this Purchase Contract may be given by delivering the same in writing:

To the Authority: Morgan Hill Financing Authority
17555 Peak Avenue
Morgan Hill, California 95037
Attention: Chief Administrative Officer

To the City: City of Morgan Hill
17555 Peak Avenue
Morgan Hill, California 95037
Attention: City Manager

To the Underwriter: Piper Jaffray & Co.
345 California Street, Suite 2200
San Francisco, California 94104
Attention: Richard G. Kiss

13. **Parties in Interest.** This Purchase Contract is made solely for the benefit of the Authority, the City and the Underwriter (including the successors or assigns of the Underwriter) and no other person shall acquire or have any right hereunder or by virtue hereof. All of the Authority's and the City's representations, warranties and agreements contained in this Purchase Contract shall remain operative and in full force and effect, regardless of: (i) any investigations made by or on behalf of the Underwriter; (ii) delivery of and payment for the Bonds pursuant to this Purchase Contract; and (iii) any termination of this Purchase Contract.

14. **Determination of End of the Underwriting Period.** For purposes of this Purchase Contract, the End of the Underwriting Period for the Bonds shall mean the earlier of (a) the day of the Closing unless the Authority and the City have been notified in writing by the Underwriter, on or prior to the day of the Closing, that the "End of the Underwriting Period" for the Bonds for all purposes of Rule 15c2-12 of the Securities and Exchange Commission promulgated under the Securities Exchange Act of 1934 (the "Rule") will not occur on the day of the Closing, or (b) the date on which notice is given to the Authority and the City by the Underwriter in accordance with the following sentence. In the event that the Underwriter has given notice to the Authority and the City pursuant to clause (a) above that the "End of the

Underwriting Period” for the Bonds will not occur on the day of the Closing, the Underwriter agrees to notify the Authority and the City in writing as soon as practicable following the “End of the Underwriting Period” for the Bonds for all purposes of the Rule; provided, that the Ending of Period shall not extend beyond 90 days after the Closing.

15. **Effectiveness.** This Purchase Contract shall become effective upon the execution of the acceptance by the designee of the Authority and the City and shall be valid and enforceable at the time of such acceptance.

16. **Headings.** The headings of the sections of this Purchase Contract are inserted for convenience only and shall not be deemed to be a part hereof.

17. **Governing Law.** This Purchase Contract shall be construed in accordance with the laws of the State of California.

18. **Counterparts.** This Purchase Contract may be executed in any number of counterparts.

If the foregoing is in accordance with your understanding of the Bond Purchase Contract please sign and return to us the enclosed duplicate copies hereof, whereupon it will become a binding agreement among the Authority, the City and the Underwriter in accordance with its terms.

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If the foregoing is in accordance with your understanding of the Purchase Contract please sign and return to us the enclosed duplicate copies hereof, whereupon it will become a binding agreement among the Authority, the City and the Underwriter in accordance with its terms.

Very truly yours,

PIPER JAFFRAY & CO.

By: _____
Managing Director

Accepted:

This ____ day of _____, 2005

MORGAN HILL FINANCING AUTHORITY

By: _____
Treasurer

CITY OF MORGAN HILL

By: _____
Mayor

EXHIBIT A

I. Maturity Schedule

(a) Series 2005A Bond Maturities. The Series 2005A Bonds shall mature and become payable on September 2 of each year as follows:

<u>Maturity Date</u> <u>(September 2)</u>	<u>Principal</u> \$	<u>Interest Rate</u> %	<u>Yield</u> %
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(b) Series 2005B Bond Maturities. The Series 2005B Bonds shall mature and become payable on September 2 of each year as follows:

<u>Maturity Date</u> <u>(September 2)</u>	<u>Principal</u> \$	<u>Interest Rate</u> %	<u>Yield</u> %
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II. Redemption Provisions

(a) Optional Redemption. The Series 2005A Bonds maturing before September 2, [2010] are not subject to optional redemption by the Authority. The Series 2005A Bonds maturing on or after September 2, [2010] will be subject to redemption at the option of the Authority, as a whole or in part, in integral multiples of \$5,000 principal amount, by the Authority from proceeds derived from an optional redemption of the Reassessment 2005A Bonds by the City, on any Interest Payment Date on or after March 2, [2010], at the following respective redemption prices (expressed as a percentage of the principal amount of the Bonds to be redeemed), plus accrued interest thereon to the date of redemption:

<u>Redemption Date</u>	<u>Redemption Price</u>
March 2, [2010] and September 2, [2010]	102%
March 2, [2011] and September 2, [2011]	
March 2, [2012] and thereafter	

The Series 2005B Bonds maturing before September 2, [2010] are not subject to optional redemption by the Authority. The Series 2005B Bonds maturing on or after September 2, [2010] will be subject to redemption at the option of the Authority, as a whole or in part, in integral multiples of \$5,000 principal amount, by the Authority from proceeds derived from an optional redemption of the Reassessment 2005A Bonds by the City, on any Interest Payment Date on or after March 2, [2010], at the following respective redemption prices (expressed as a percentage of the principal amount of the Bonds to be redeemed), plus accrued interest thereon to the date of redemption:

<u>Redemption Date</u>	<u>Redemption Price</u>
March 2, [2010] and September 2, [2010]	102%
March 2, [2011] and September 2, [2011]	
March 2, [2012] and thereafter	

(b) Extraordinary Mandatory Redemption upon Redemption of Reassessment Bonds. Notwithstanding the provisions of subsection (a) above, the Series 2005A Bonds are subject to extraordinary mandatory redemption on any Interest Payment Date prior to their respective maturity dates upon redemption of Reassessment 2005A Bonds by the City pursuant to prepayments of Reassessments as provided in the Fiscal Agent Agreement. Such redemption may be as a whole or in part, among maturities, provided that the debt service on the Series 2005A Bonds that will remain Outstanding following such redemption shall be as close to equal as possible to (but in no event greater than) the debt service on the Reassessment 2005A Bonds which will remain Outstanding after the redemption. In the event of such an extraordinary mandatory redemption, the Series 2005A Bonds shall be redeemed at the following respective redemption prices (expressed as a percentage of the principal amount of the Series 2005A Bonds to be redeemed), plus accrued interest thereon to the date of redemption:

<u>Redemption Dates</u>	<u>Redemption Price</u>
Prior to March 2, [2010]	103%
March 2, [2010] and September 2, [2010]	
March 2, [2011] and September 2, [2011]	
March 2, [2012] and thereafter	

Notwithstanding the provisions of subsection (a) above, the Series 2005B Bonds are subject to extraordinary mandatory redemption on any Interest Payment Date prior to their respective maturity dates upon redemption of Reassessment 2005B Bonds by the City pursuant to prepayments of Reassessments as provided in the Fiscal Agent Agreement. Such redemption may be as a whole or in part, among maturities, provided that the debt service on the Series 2005B Bonds that will remain Outstanding following such redemption shall be as close to equal as possible to (but in no event greater than) the debt service on the Reassessment 2005B Bonds which will remain Outstanding after the redemption. In the event of such an extraordinary mandatory redemption, the Series 2005B Bonds shall be redeemed at the following respective redemption prices (expressed as a percentage of the principal amount of the Series 2005B Bonds to be redeemed), plus accrued interest thereon to the date of redemption:

<u>Redemption Dates</u>	<u>Redemption Price</u>
Prior to March 2, [2010]	103%
March 2, [2010] and September 2, [2010]	
March 2, [2011] and September 2, [2011]	
March 2, [2012] and thereafter	

(c) Mandatory Sinking Fund Redemption. The Series 2005A Bonds maturing on September 2, 20__ and September 2, 20__ are subject to redemption in part by lot from sinking fund payments made by the Authority, at a redemption price equal to the principal amount thereof to be redeemed with accrued interest thereon to the redemption date, without premium, in the aggregate respective principal amounts and on the respective dates as set forth in the following tables; provided, however, if some but not all of the term Series 2005A Bonds of a maturity have been redeemed pursuant to an optional redemption as provided in Section (a) above or an extraordinary mandatory redemption as provided in Section (b) above, all future sinking fund payment with respect to such term Series 2005A Bonds will be reduced, to be allocated among such sinking fund payments on a pro rata basis (as nearly as practicable) in integral multiples of \$5,000:

Series 2005A Bonds Maturing on September 2, 20__

<u>Redemption Date</u>	<u>Principal Amount to be Redeemed</u>
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* maturity

Series 2005A Bonds Maturing on September 2, 20__

<u>Redemption Date</u>	<u>Principal Amount to be Redeemed</u>
------------------------	--

* maturity

The Series 2005B Bonds maturing on September 2, 20__ and September 2, 20__ are subject to redemption in part by lot from sinking fund payments made by the Authority, at a redemption price equal to the principal amount thereof to be redeemed with accrued interest thereon to the redemption date, without premium, in the aggregate respective principal amounts and on the respective dates as set forth in the following tables; provided, however, if some but not all of the term Series 2005B Bonds of a maturity have been redeemed pursuant to an optional redemption as provided in Section (b) above or an extraordinary mandatory redemption as provided in Section (b) above, all future sinking fund payment with respect to such term Series 2005B Bonds will be reduced, to be allocated among such sinking fund payments on a pro rata basis (as nearly as practicable) in integral multiples of \$5,000:

Series 2005B Bonds Maturing on September 2, 20__

<u>Redemption Date</u>	<u>Principal Amount to be Redeemed</u>
------------------------	--

* maturity

Series 2005B Bonds Maturing on September 2, 20__

<u>Redemption Date</u>	<u>Principal Amount to be Redeemed</u>
------------------------	--

* maturity

EXHIBIT B

Supplemental Opinion of Richards, Watson & Gershon, as Bond Counsel

\$ _____
Morgan Hill Financing Authority
Reassessment Revenue Bonds
Series 2005A
(Madrone Business Park)

\$ _____
Morgan Hill Financing Authority
Reassessment Revenue Bonds
Series 2005B
(Madrone Business Park)
(Taxable)

[Closing Date]

Piper Jaffray & Co.
San Francisco, California

Ladies and Gentlemen:

We have this day released to the Morgan Hill Financing Authority (the “Authority”) our final approving legal opinions with respect to the above-referenced bonds (the “Bonds”). You are authorized to rely on such opinions as if the same were addressed to you.

In connection with rendering the above-described opinions, we examined the record of proceedings submitted to us relative to the issuance of the Bonds and such other documents as are in our opinion necessary to enable us to express an informed opinion with respect to the following matters. Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Bond Purchase Contract, dated _____, 2005 (the “Bond Purchase Contract”), by and among the Authority, the City of Morgan Hill (the “City”) and the Underwriter.

The opinions expressed herein are based on an analysis of existing law and cover certain matters not directly addressed thereby. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof, and we have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. We have assumed the genuineness of all documents and signatures presented to us. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in such documents. Furthermore, we have assumed compliance with all agreements and covenants contained in such documents.

Based upon the foregoing, in our opinion:

1. The Authority has the right and power to perform all of its obligations under the Purchase Contract. The Authority has duly authorized, executed and delivered the Authority Documents, and assuming due authorization, execution and delivery by the other parties thereto, as necessary, each of the Authority Documents constitutes the legal, valid and binding agreement

of the Authority enforceable against the Authority in accordance with its terms, except as the enforceability thereof may be limited by bankruptcy, moratorium, insolvency, equitable remedies and other laws affecting creditors' rights or remedies.

2. The City has the right and power to perform all of its obligations under the Purchase Contract. The City has duly authorized, executed and delivered the City Documents, and assuming due authorization, execution and delivery by the other parties thereto, as necessary, each of the City Documents constitutes the legal, valid and binding agreement of the Authority enforceable against the Authority in accordance with its terms, except as the enforceability thereof may be limited by bankruptcy, moratorium, insolvency, equitable remedies and other laws affecting creditors' rights or remedies.

3. The Bonds are not required to be registered under the Securities Act of 1933, as amended.

4. The statements contained in the Official Statement relating to the Bonds under the captions "THE BONDS," "SECURITY FOR THE BONDS," "TAX MATTERS" and "APPENDIX E – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" (but excluding any statements relating to financial or statistical information), insofar as such statements purport to summarize the provisions of the Bonds, the Indenture, the Reassessment Bonds, the Fiscal Agent Agreement, the Continuing Disclosure Agreement, the Bond Law and federal tax law, fairly and accurately summarize the information presented therein.

This letter is furnished by us as Bond Counsel to the Authority. No attorney-client relationship has existed or exists between our firm and you in connection with the Bonds or by virtue of this letter. Our engagement with respect to the Bonds has terminated as of the date hereof, and we disclaim any obligation to update this letter. This letter is delivered to you as the Underwriter for the Bonds, is solely for your benefit and is not to be used, circulated, quoted or otherwise referred to or relied upon for any other purpose or by any other person. This letter is not intended to, and may, not, be relied upon by owners of the Bonds.

Respectfully submitted,

EXHIBIT C

Opinion of Helene Leichter, General Counsel of the Authority

\$ _____
Morgan Hill Financing Authority
Reassessment Revenue Bonds
Series 2005A
(Madrone Business Park)

\$ _____
Morgan Hill Financing Authority
Reassessment Revenue Bonds
Series 2005B
(Madrone Business Park)
(Taxable)

[Closing Date]

Piper Jaffray & Co.
San Francisco, California

Ladies and Gentlemen:

I am the General Counsel of the Morgan Hill Financing Authority (the “Authority”). In such capacity, in connection with the issuance by the Authority of the above-referenced bonds (the “Bonds”), I have examined the original, certified copies, or copies otherwise identified to my satisfaction as being true copies of such resolutions, documents, certificates, and records as I have deemed relevant and necessary (except as we have specifically limited the scope of our investigation herein) as the basis for the opinions set forth herein relying on such examination and pertinent law and subject to the limitations and qualifications hereinafter set forth. Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Bond Purchase Contract dated _____, 2005 (the “Purchase Contract”), by and among the Authority, the City of Morgan Hill and Piper Jaffray & Co., as the Underwriter.

Relying on such examination and pertinent law and subject to the limitations and qualifications hereinafter set forth, I am of the opinion that:

1. The Authority is a joint exercise of powers authority duly organized and validly existing under the laws of the State of California;

2. The Authority Resolution was duly adopted at a meeting of the governing body of the Authority, which meeting was called and held pursuant to law, with all public notice required by law and at which a quorum was present and acting throughout, and the Authority Resolution has not been amended since its date of adoption and is now in full force and effect; and

3. To the best of my knowledge, there is no action, suit, proceeding, inquiry or investigation, notice of which has been served on the Authority, at law or in equity before or by any court, government agency, public board or body, pending or threatened wherein an unfavorable decision, ruling or finding would (a) affect the creation, organization, existence or

powers of the Authority or the titles of its officers to their respective offices, (b) in any way question or affect the validity or enforceability of the Authority Documents, or (c) find illegal, invalid or unenforceable, or materially impair the Authority's ability to perform under, the Purchase Contract or the transactions contemplated thereby, or any other agreement or instrument related to the issuance of the Bonds to which the Authority is a party.

Very truly yours,

EXHIBIT D

Opinion of Helene Leichter, City Attorney of the City

\$ _____
Morgan Hill Financing Authority
Reassessment Revenue Bonds
Series 2005A
(Madrone Business Park)

\$ _____
Morgan Hill Financing Authority
Reassessment Revenue Bonds
Series 2005B
(Madrone Business Park)
(Taxable)

[Closing Date]

Piper Jaffray, Inc.
San Francisco, California

Ladies and Gentlemen:

I am the City Attorney of the City of Morgan Hill (the “City”). In such capacity, in connection with the issuance of the above-referenced bonds (the “Bonds”) by the Morgan Hill Financing Authority (the “Authority”), I have examined the original, certified copies, or copies otherwise identified to my satisfaction as being true copies of such resolutions, documents, certificates, and records as I have deemed relevant and necessary (except as we have specifically limited the scope of our investigation herein) as the basis for the opinions set forth herein relying on such examination and pertinent law and subject to the limitations and qualifications hereinafter set forth. Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Bond Purchase Contract dated _____, 2005 (the “Purchase Contract”), by and among the Authority, the City and Piper Jaffray & Co., as the Underwriter.

Relying on such examination and pertinent law and subject to the limitations and qualifications hereinafter set forth, I am of the opinion that:

1. The City is a duly organized and validly existing municipal corporation, organized under the laws of the State of California;

2. The City Resolutions were duly adopted at a meeting of the City Council of the City, which meeting was called and held pursuant to law, with all public notice required by law and at which a quorum was present and acting throughout, and the City Resolutions have not been amended since their date of adoption and are now in full force and effect; and

3. To the best of my knowledge, there is no action, suit, proceeding, inquiry or investigation, notice of which has been served on the City, at law or in equity before or by any court, government agency, public board or body, pending or threatened wherein an unfavorable decision, ruling or finding would (a) affect the creation, organization, existence or powers of the City or the titles of its officers to their respective offices, (b) in any way question or affect the validity or enforceability of the City Documents, or (c) find illegal, invalid or unenforceable, or

materially impair the City's ability to perform under, the Purchase Contract or the transactions contemplated thereby, or any other agreement or instrument related to the issuance of the Bonds or the Reassessment Bonds to which the City is a party.

Very truly yours,

EXHIBIT E

Opinion of Richards, Watson & Gershon, Disclosure Counsel

\$ _____
Morgan Hill Financing Authority
Reassessment Revenue Bonds
Series 2005A
(Madrone Business Park)

\$ _____
Morgan Hill Financing Authority
Reassessment Revenue Bonds
Series 2005B
(Madrone Business Park)
(Taxable)

[Closing Date]

Piper Jaffray, Inc.
San Francisco, California

Ladies and Gentlemen:

We have acted as Disclosure Counsel to the Morgan Hill Financing Authority (the “Authority”) with respect to the Authority’s Reassessment Revenue Bonds, Series 2005A (Madrone Business Park) (the “Series 2005A Bonds”) and the Authority’s Reassessment Revenue Bonds, Series 2005B (Taxable) (Madrone Business Park) (the “Series 2005B” and together with the Series 2005A Bonds, the “Bonds”). This opinion is rendered to you as the Underwriter named in the Bond Purchase Contract dated _____, 2005 (the “Purchase Contract”), by and among you, the City of Morgan Hill (the “City”) and the Authority, pursuant to which you have agreed to purchase the Bonds. All capitalized terms used and not otherwise defined herein have the meanings ascribed to them in the Purchase Contract.

In rendering this opinion, we have reviewed such records, documents, certificates and opinions, and made such other investigations of law and fact as we have deemed necessary or appropriate. This letter is limited to matters governed by the federal securities law of the United States, and we assume no responsibility with respect to the applicability or effect of the laws of any other jurisdiction.

In our capacity as Disclosure Counsel, we have participated in the preparation of the Official Statement, dated _____, 2005, relating to the Bonds. Such participation, among other things, discussions and inquiries concerning various legal matters, review of certain documents and proceedings, and participation in conferences with, among others, your representatives and representatives of the Authority and the City, RBC Dain Rauscher, as Financial Advisor to the City and the Authority, and NBS Government Finance Group, as the Reassessment Engineer, at which conferences the contents of the Official Statement and related matters were discussed. On the basis of the information made available to us in the course of the foregoing (but without having undertaken to determine or verify independently, or assuming any responsibility for, the accuracy, completeness or fairness of any of the statements contained in the Official Statement), no facts have come to the attention of the personnel in our firm directly involved in rendering legal advice and assistance in connection with the preparation of the

Official Statement which cause us to believe that the Official Statement as of its date (excluding therefrom financial, engineering and statistical data; forecasts, projections, estimates, assumptions and expressions of opinions; the book-entry only system; statements relating to the treatment of the Bonds or the Reassessment Bonds or the interest, discount or premium related thereto for tax purposes under the law of any jurisdiction; and the statements contained in the Official Statement under the caption "TAX MATTERS"; as to all of which we express no view herein) contained any untrue statement of a material fact or omitted to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

During the period from the date of the Official Statement to the date of this opinion, except for our review of the certificates and opinions regarding the Official Statement delivered on the date hereof, we have not undertaken any procedures or taken any actions which were intended or likely to elicit information concerning the accuracy, completeness or fairness of any of the statements contained in the Official Statement.

We are furnishing this opinion to you, as Disclosure Counsel to the Authority, pursuant to the Purchase Contract, solely for your benefit as Underwriter of the Bonds. This opinion is rendered in connection with the transaction described herein, and may not be relied upon by you for any other purpose. This opinion shall not extend to, and may not be used, circulated, quoted, referred to, or relied upon by, any other person, firm, corporation or other entity without our prior written consent. Our engagement with respect to this matter terminates upon the delivery of this opinion to you at the time of the closing relating to the Bonds, and we have no obligation to update this opinion.

Very truly yours,

EXHIBIT F
Form of TBI Development Certificate

CERTIFICATE OF TOENISKOETTER & BREEDING, INC. DEVELOPMENT

with reference to

\$ _____
Morgan Hill Financing Authority
Reassessment Revenue Bonds
Series 2005A
(Madrone Business Park)

\$ _____
Morgan Hill Financing Authority
Reassessment Revenue Bonds
Series 2005B
(Madrone Business Park)
(Taxable)

Toeniskoetter & Breeding, Inc. Development, a California Corporation (the “TBI Development”) hereby certifies and agrees as follows:

1. Brad W. Krouskup is the duly acting President of TBI Development, and as such, is familiar with the facts herein certified and is authorized and qualified to certify the same on behalf of the undersigned.

2. TBI Development is a corporation, duly organized, validly existing and in good standing under the laws of the State of California.

3. TBI Development has received a copy of the Preliminary Official Statement, dated _____, 2005, and a copy of the Official Statement, dated _____, 2005 (the “Official Statement”) relating to the above-referenced bonds (the “Bonds”).

4. The information regarding TBI Development and the TBI Affiliates, property in the District, and TBI Development’s development plan with respect to one of the undeveloped parcels in the District currently owned by Madarone Land Corporation (Assessor’s Parcel No. 726-33-028) contained in the Official Statement (including statements under the captions “THE DISTRICT,” “TBI AFFILIATES AND TBI DEVELOPMENT; PLAN FOR FURTHER DEVELOPMENT IN THE DISTRICT” and “BONDOWNERS’ RISKS – Hazardous Substances”) was as of the date of the Official Statement, and is as of the date hereof, true and correct and complete in all material respects. Such information did not as of the date of the Official Statement, and does not as of the date hereof, contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements contained therein, in light of the circumstances under which they were made, not misleading.

5. Any and all information provided by or on behalf of TBI Development to the City or Disclosure Counsel in connection with the preparation of the Official Statement, was true and correct when given and remains true and correct as of the date hereof.

6. Any and all information provided by or on behalf of TBI Development to Carneghi-Blum & Partners, Inc. in connection with the preparation of the Appraisal was true and correct when given and remains true and correct as of the date hereof.

7. Without expressing any view regarding the estimated value of property in the District set forth in the Appraisal or the Official Statement, to the best of TBI Development's knowledge, no event has occurred since the January __, 2005 to the date hereof, which has, or can be reasonably assumed to have with the passage of time, a material adverse effect on the market value of property in the District.

8. To the best knowledge of TBI Development after due inquiry, other than as described in the Official Statement, (i) no public debt secured by a tax or assessment on the property in the District exists or is proposed or in the process of being authorized, and (ii) no assessment district or community facilities district exists or is proposed or in the process of being formed, which, in each case, would include any portion of the land within the District.

9. None of the property owned by the TBI Affiliates within the District is delinquent in the payment of any taxes or assessments.

10. To the best knowledge of TBI Development after due inquiry, there is no event of material monetary default (or event which with the passage of time would constitute a material monetary default) under any loan or similar credit arrangement to which TBI Development or any of the TBI Affiliates or any member of a TBI Affiliate is a party or to which any of its properties in the District is subject.

11. There is no proceeding pending or threatened in which TBI Development or any of the TBI Affiliates may be adjudicated as bankrupt, or discharged from any or all of its debts or obligations, or granted an extension of time to pay its debt or obligations, or be allowed to reorganize or readjust its debts or obligations.

12. To the best of TBI Development's knowledge after due inquiry, there is no pending or threatened claim, dispute, suit, action or contingent liability against, among, or between any of TBI Development, the TBI Affiliates, or one or more members of any TBI Affiliate which has, or can be reasonably assumed to have with the passage of time, a materially adverse effect on the ability or the willingness of the TBI Affiliates to pay the Reassessment installments when due.

13. To the best of TBI Development's knowledge, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, pending or threatened, before or by any court or regulatory agency, public board or body, which in any way seeks to challenge or overturn the District, the levy of the Reassessment, the lien securing the unpaid or the validity of the Reassessment Bonds or the proceedings leading up to their issuance. While any of the Bonds are outstanding, neither TBI Development nor any affiliate under TBI Development's control will bring forth any such action, suit, proceeding, inquiry or investigation.

14. TBI Development has complied with all of its reporting obligations under the continuing disclosure agreement relating to the Prior Bonds.

15. TBI Development has duly authorized and executed the Continuing Disclosure Agreement, substantially in the form contained in Appendix G to the Official Statement. Assuming due execution and delivery by the other parties thereto, the Continuing Disclosure Agreement is the valid obligation of TBI Development, enforceable against TBI Development in accordance with its terms. The execution and delivery of the Continuing Disclosure Agreement and compliance with the provisions thereof on the part of TBI Development, will not conflict in any material way with any law, judgment, agreement or other instrument to which TBI Development is a party or is subject.

Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Official Statement.

Dated: _____, 2005

TOENISKOETTER & BREEDING, INC.
DEVELOPMENT, a California Corporation

By:_____

Name:_____

Title:_____

FISCAL AGENT AGREEMENT

by and between

THE CITY OF MORGAN HILL

and

THE BANK OF NEW YORK TRUST COMPANY, N.A.,

as Fiscal Agent

with reference to

\$ _____
City of Morgan Hill
Assessment District No. 2000-1
(Madrone Business Park)
Limited Obligation Refunding Improvement Bonds
Series 2005A

\$ _____
City of Morgan Hill
Assessment District No. 2000-1
(Madrone Business Park)
Limited Obligation Refunding Improvement Bonds
Series 2005B (Taxable)

Dated as of February 1, 2005

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EXHIBIT A – FORM OF REASSESSMENT 2005A BOND

EXHIBIT B – FORM OF REASSESSMENT 2005B BOND

FISCAL AGENT AGREEMENT

THIS **FISCAL AGENT AGREEMENT** (the "Agreement") is made and entered into as of _____ 1, 2005, by and between the **City of Morgan Hill**, California, a municipal corporation (the "City"), and **The Bank of New York Trust Company, N.A.**, a national banking association organized and existing under the laws of the United States of America, as fiscal agent (the "Fiscal Agent").

W I T N E S S E T H:

WHEREAS, the City has heretofore formed Assessment District No. 2000-1 (Madrone Business Park) (the "District") pursuant to the Municipal Improvement Act of 1913 (the "Improvement Act") as set forth in Division 12 (commencing with Section 10000) of the California Streets and Highway Code (the "Code"); and

WHEREAS, the City has issued, pursuant to the Improvement Bond Act of 1915 as set forth in Division 10 (commencing with Section 8500) of the Code, its (i) Assessment District No. 2000-1 (Madrone Business Park) Limited Obligation Improvement Bonds, Series A 2000 (the "Prior 2000A Bonds"), of which \$8,620,000 in principal amount remain outstanding, and (ii) Assessment District No. 2000-1 (Madrone Business Park) Limited Obligation Improvements Bonds, Series B 2000 (Taxable) (the "Prior 2000B Bonds," and together with the Prior 2000A Bonds, the "Prior Bonds"), of which \$1,440,000 in principal amount remain outstanding; and

WHEREAS, the City Council of the City (the "City Council") has adopted its Resolution No. _____ on _____, 2005, declaring its intention to issue bonds to refund the Prior Bonds and to levy reassessments within the District to secure such refunding bonds under and pursuant to the Refunding Act of 1984 for 1915 Improvement Act Bonds (the "1984 Refunding Act"), as set forth in Division 11.5 (commencing with Section 9500) of the California Streets and Highways Code; and

WHEREAS, the City Council, by its Resolution No. _____, adopted on _____, 2005, has approved a reassessment report (the "Reassessment Report") prepared by NBS Government Finance Group in connection with the proposed refunding and reassessment pursuant to Section 9523 of the 1984 Refunding Act, made the findings required by Section 9525 of the 1984 Refunding Act, and confirmed and adopted the reassessment and reassessment diagram presented with the Reassessment Report; and

WHEREAS, the aforementioned reassessment diagram and a notice of reassessment shall be duly recorded in the manner provided by law, and the reassessments and interest thereon shall be collected on the assessment roll for the County of Santa Clara in the same manner and subject to the same remedies on default and to the payment of interest and penalties on the enforcement thereof as the original assessments in the District; and

WHEREAS, by its Resolution No. _____, adopted by the City Council on _____, 2005, the City Council has authorized and provided for the issuance and sale of the City's (i) Assessment District No. 2000-1, Limited Obligation Refunding Improvement Bonds, Series 2005A (the "Reassessment 2005A Bonds") and (ii) Assessment District No. 2000-1, Limited Obligation Refunding Improvement Bonds, 2005B (Taxable) (the "Reassessment 2005B Bonds" and together with the Reassessment 2005A Bonds, the "Bonds"), pursuant to the 1984 Refunding Act; and

WHEREAS, the City anticipates that the Bonds, upon issuance, will be sold to the Morgan Hill Financing Authority (the “Authority”), as the initial purchaser thereof; and

WHEREAS, it is anticipated that the Authority will issue bonds (the “Authority Bonds”) under pursuant to the Marks-Roos Local Bond Pooling Act of 1985 (commencing with Section 6584 of the California Government Code); and

WHEREAS, the sale proceeds of the Authority Bonds will be used for the purchase of the Bonds from the City and the Authority Bonds will be secured by payments to be made on the Bonds and the other bonds of the City so purchased by the Authority; and

WHEREAS, the City has determined that all acts and proceedings required by law necessary to make the Bonds, when executed by the City, authenticated and delivered by the Fiscal Agent and duly issued, the valid, binding and legal limited obligations of the City, and to constitute this Fiscal Agent Agreement a valid and binding agreement for the uses and purposes herein set forth in accordance with its terms, have been done and taken, and the execution and delivery of this Fiscal Agent Agreement have been in all respects duly authorized;

NOW, THEREFORE, in consideration of the covenants and provisions herein set forth and for other valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto do hereby agree as follows:

ARTICLE I

AUTHORITY AND DEFINITIONS

Section 1.01. Authority for this Agreement. This Agreement is entered into pursuant to the provisions of the 1984 Refunding Act and the Resolution.

Section 1.02. Agreement for Benefit of Bondowners. The provisions, covenants and agreements herein set forth to be performed by or on behalf of the City shall be for the equal benefit, protection and security of the Owners of the Bonds. All of the Bonds, without regard to the time or times of their issuance or maturity, shall be of equal rank without preference, priority or distinction of any of the Bonds over any other thereof, except as expressly provided in or permitted by this Agreement. The Fiscal Agent and its officers and employees may become the owner of any of the Bonds with the same rights it would have if it were not Fiscal Agent.

Section 1.03. Definitions. Unless the context otherwise requires, the terms defined in this Section 1.03 shall, for all purposes of this Agreement, of any Supplemental Agreement, and of any certificate, opinion or other document herein mentioned, have the meanings herein specified. All references herein to “Articles,” “Sections” and other subdivisions are to the corresponding Articles, Sections or subdivisions of this Agreement, and the words “herein,” “hereof,” “hereunder” and other words of similar import refer to this Agreement as a whole and not to any particular Article, Section or subdivision hereof.

“Agreement” means this Agreement, as it may be amended or supplemented from time to time by any Supplemental Agreement entered into pursuant to the provisions hereof.

“Annual Debt Service” means, for each Bond Year, the sum of (a) the interest due on the Outstanding Bonds in such Bond Year, assuming that the Outstanding Bonds are retired as scheduled, and (b) the principal amount of the Outstanding Bonds scheduled to be paid in such Bond Year.

“Authorized Officer” means any officer or employee of the City authorized by the City Council or by an Authorized Officer to undertake the action referenced in this Agreement as required to be undertaken by an Authorized Officer.

“Authority” means the Morgan Hill Financing Authority.

“Authority Bonds” means the Morgan Hill Financing Authority Reassessment Revenue Bonds, Series 2005A (Madrone Business Park) and the Morgan Hill Financing Authority Reassessment Revenue Bonds, Series 2005B (Madrone Business Park) (Taxable), which bonds will be secured, in part, by the payments on the Bonds.

“Authority Bonds Indenture” means the indenture (or similar instrument) pursuant to which the Authority Bonds are issued.

“Authority Bonds Trustee” means the banking institution or trust company appointed by the Authority to act as trustee for the Authority Bonds pursuant to the Authority Bonds Indenture.

“Bond Year” means the period beginning on the Closing Date and ending on September 2, 2005 and thereafter the period beginning on each September 3 and ending on the following September 2.

“Bonds” means, collectively, the Reassessment 2005A Bonds and the Reassessment 2005B Bonds.

“Business Day” means any day of the year, other than (i) a Saturday or Sunday, or (ii) a day on which banks in New York, New York and Los Angeles, California, and San Francisco, California are required or authorized to remain closed and on which the New York Stock Exchange is closed.

“City” means the City of Morgan Hill.

“City Council” means the City Council of the City.

“Closing Date” means the date upon which there is an exchange of the Bonds for the proceeds representing payment of the purchase price of the Bonds by (or on behalf of) the Authority.

“Code” means the Internal Revenue Code of 1986 as in effect on the date of original issuance of the Bonds or (except as otherwise referenced herein) as it may be amended to apply to obligations issued on the date of original issuance of the Bonds, together with regulations promulgated, and official public guidance published, under the Code.

“Costs of Issuance” means all expenses incident to the calling, retiring or paying of the Prior Bonds and to the issuance of the Bonds including, but not limited to, any bond counsel, financial advisors, underwriters, certified public accountants, and rating agency fees, printing and advertising costs, filing and recording fees, City administrative expenses, and charges of the Prior Bonds Escrow Agent under the Escrow Agreement, the charges of the Fiscal Agent, the funding of a reserve account pursuant to the Authority Bonds Indenture and the costs of issuance of the Authority Bonds.

“County” means Santa Clara County, California.

“Debt Service” means the amount of interest and principal payable on the Bonds scheduled to be paid during the period of computation, excluding amounts payable during such period which relate to principal of the Bonds which are scheduled to be retired and paid before the beginning of such period.

“District” means the City’s Assessment District No. 2000-1 (Madrone Business Park), originally formed pursuant to Resolution No. 5456 adopted by the City Council on March 15, 2000, and related proceedings.

“Escrow Agreement” means the Escrow Agreement proposed to be entered into by and between the City and the Prior Bonds Escrow Agent in connection with the refunding of the Prior Bonds.

“Federal Securities” means any of the following which at the time of investment are determined by the City to be legal investments under the laws of the State of California for the moneys proposed to be invested therein:

(i) Cash; and

(ii) Direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), or obligations, the payment of principal of and interest on which is unconditionally guaranteed by the United States of America.

“Fiscal Agent” means The Bank of New York Trust Company, N.A., the Fiscal Agent appointed by the City, acting as an independent fiscal agent with the duties and powers herein provided, its successors and assigns, and any other corporation or association which may at any time be substituted in its place, as provided in Section 7.01 hereof

“Fiscal Year” means the twelve-month period extending from July 1 in a calendar year to June 30 of the succeeding year, both dates inclusive, or any other twelve-month period selected by the City as its official fiscal year period.

“Independent Financial Consultant” means a firm of certified public accountants, a financial consulting firm, a consulting engineering firm or an engineer which is not an employee of, or otherwise controlled by, the City.

“Information Services” means Financial Information, Inc.’s “Daily Called Bond Service,” 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Mergent/FIS, Inc., 5250 77 Center Drive, Suite 150, Charlotte, North Carolina 28217, Attention: Called Bond Department; and Standard & Poor’s J.J. Kenny Drake, Inc., 55 Water Street, New York, New York 10041, Attention: Notification Department; or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other services providing information with respect to called bonds, or no such services, as the City may indicate in writing to the Fiscal Agent.

“Interest Payment Dates” means March 2 and September 2 of each year, commencing September 2, 2005.

“Investment Earnings” means all interest earned and any gains and losses on the investment of

moneys in any fund or account created by this Agreement excluding interest earned and gains and losses on the investment of moneys in the Rebate Fund.

“Moody’s” shall mean Moody’s Investors Service, its successors and assigns.

“1984 Refunding Act” means the Refunding Act of 1984 for 1915 Improvement Act Bonds, as set forth in Division 11.5 (commencing with Section 9500) of the California Streets and Highways Code.

“1915 Act” means the Improvement Bond Act of 1915, as set forth in Division 10 (commencing with Section 8500) of the California Streets and Highways Code.

“Officer’s Certificate” means a written certificate of the City signed by an Authorized Officer of the City.

“Outstanding,” when used as of any particular time with reference to the Bonds, means (subject to the provisions of Section 8.04 hereof) all Bonds except:

(i) Bonds theretofore canceled by the Fiscal Agent or surrendered to the Fiscal Agent for cancellation;

(ii) Bonds called for redemption which, for the reasons specified in Section 2.03(f) hereof, are no longer entitled to any benefit under this Agreement other than the right to receive payment of the redemption price therefor;

(iii) Bonds paid or deemed to have been paid within the meaning of Section 9.03 hereof; and

(iv) Bonds in lieu of or in substitution for which other Bonds shall have been authorized, executed, issued and delivered by the City and authenticated by the Fiscal Agent pursuant to this Agreement or any Supplemental Agreement.

“Owner” or “Bondowner” means any person who shall be the registered owner of any Outstanding Bond.

“Permitted Investments” means any of the following that at the time of investment are legal investments under the laws of the State of California for the moneys proposed to be invested therein:

(a) Direct obligations of the United States (including obligations issued or held in book-entry form on the books of the Department of the Treasury, and CATS and TIGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States.

(b) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States (stripped securities are only permitted if they have been stripped by the agency itself):

1. U.S. Export-Import Bank (“Eximbank”)
Direct obligations or fully guaranteed certificates of beneficial ownership
2. Farmers Home Administration (“FmHA”)

Certificates of beneficial ownership

3. Federal Financing Bank
4. Federal Housing Administration Debentures (“FHA”)
5. General Services Administration
Participation certificates
6. Government National Mortgage Association (“GNMA”)
GNMA - guaranteed mortgage-backed bonds
GNMA - guaranteed pass-through obligations
(participation certificates) (not acceptable for certain cash-flow sensitive issues)
7. United States Maritime Administration
Guaranteed Title XI financing
8. United States Department of Housing and Urban Development
Project Notes
Local Authority Bonds
New Communities Debentures
United States government guaranteed debentures
United States Public Housing Notes and Bonds
United States government guaranteed public housing notes and bonds

(c) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit United States government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

1. Federal Home Loan Bank System Senior debt obligations
2. Federal Home Loan Mortgage Corporation (“FHLMC”)
Participation Certificates
Senior debt obligations
3. Federal National Mortgage Association (“FNMA”)
Mortgage-backed securities and senior debt obligations
4. Student Loan Marketing Association (“SLMA”)
Senior debt obligations
5. Resolution Funding Corporation obligations

(d) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of “AAAm-G,” “AAA-m” or “AA-m” and if rated by Moody’s rated “Aaa,” “Aa1” or “Aa2,” including funds for which the Fiscal Agent or any of its affiliates (including any holding company, subsidiaries, or other affiliates) provides investment advisory or other management services, provided such funds satisfy the criteria herein contained.

(e) Certificates of deposit secured at all times by collateral described in (a) and/or (b) above. Such certificates must be issued by commercial banks (including affiliates of the Fiscal Agent), savings and loan associations or mutual savings banks. The collateral must be held by a third party and the bondholders must have a perfected first security interest in the collateral.

(f) Certificates of deposit, savings accounts, deposit accounts or money market deposits (including those of the Fiscal Agent and its affiliates) which are fully insured by FDIC, including BIF and SAIF.

(g) Investment agreements, including guaranteed investment contracts, forward purchase agreements and reserve fund put agreements.

(h) Commercial paper rated, at the time of purchase, "Prime - 1" by Moody's and "A-1" or better by S&P.

(i) Bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest rating categories assigned by such agencies.

(j) Federal funds or bankers acceptances with a maximum term of one year of any bank (including those of the Fiscal Agent and its affiliates) which has an unsecured, uninsured and unguaranteed obligation rating of "Prime - 1" or "A3" or better by Moody's and "A-1" or "A" or better by S&P.

(k) Repurchase agreements for 30 days or less must follow the following criteria. Repurchase agreements which provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to a municipal entity (buyer/lender), and the transfer of cash from a municipal entity to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the municipal entity in exchange for the securities at a specified date, and

1. Repurchase agreements must be between the municipal entity and a dealer bank or securities firm
 - A. Primary dealers on the Federal Reserve reporting dealer list which are rated "A" or better by S&P and Moody's, or
 - B. Banks rated "A" or above by S&P and Moody's.
2. The written repurchase agreements contract must include the following:
 - A. Securities which are acceptable for transfer are:
 - (1) Direct United States governments, or
 - (2) Federal agencies backed by the full faith and credit of the United States government (and FNMA & FHLMC)
 - B. The term of a repurchase agreement may be up to 30 days
 - C. The collateral must be delivered to the City, the Fiscal Agent (if the Fiscal Agent is not supplying the collateral) or third party acting as agent for the Fiscal Agent (if the Fiscal Agent is supplying the collateral) before/simultaneous with payment (perfection by possession of

certificated securities).

D. Valuation of Collateral

- (1) The securities must be valued weekly, marked-to-market at current market price plus accrued interest
- (2) The value of collateral must be equal to 104% of the amount of cash transferred by the municipal entity to the dealer bank or security firm under the repo plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred by municipality, then additional cash and/or acceptable securities must be transferred. If, however, the securities used as collateral are FNMA or FHLMC, then the value of collateral must equal 105%.

3. A legal opinion must be delivered to the municipal entity to the effect that the repurchase agreement meets guidelines under state law for legal investment of public funds.

(1) Any state or county administered pool investment fund in which the City is statutorily permitted or required to invest will be deemed a permitted investment, including, but not limited to the Local Agency Investment Fund in the treasury of the State.

“Principal Office” means the office of the Fiscal Agent in Los Angeles, California, at which at any particular time corporate trust business shall be administered, or such other office as the Fiscal Agent shall designate.

“Prior Bonds” means, collectively, the Prior 2000A Bonds and the Prior 2000B Bonds.

“Prior Bonds Escrow Agent” means U.S. Bank National Association, in its capacity as the escrow agent under the Escrow Agreement.

“Prior 2000A Bonds” means all of the City’s remaining outstanding Assessment District No. 2000-1 (Madrone Business Park) Limited Obligation Improvement Bonds, Series A 2000.

“Prior 2000B Bonds” means all of the City’s remaining outstanding Assessment District No. 2000-1 (Madrone Business Park) Limited Obligation Improvement Bonds, Series B 2000 (Taxable).

“Reassessment Fund” means the fund by that name established and maintained by the Fiscal Agent pursuant to Section 3.04(a).

“Reassessment Prepayment Account” means the account by that name in the Reassessment Fund established and maintained by the Fiscal Agent pursuant to Section 3.04(a).

“Reassessment Revenues” means (i) all 2004-05 Assessments received by the City on or after the Closing Date (which Reassessment Revenues shall be applied only toward the payment of interest on the Bonds due on or before September 2, 2006), and (ii) the revenues received by the City in each Fiscal Year from the collection of annual installments of Reassessments and proceeds from the sale of property for delinquent Reassessment installments.

“Reassessment 2005A Bonds” means the City’s Assessment District No. 2000-1 (Madrone Business Park), Limited Obligation Refunding Improvement Bonds, Series 2005A.

“Reassessment 2005B Bonds” means the City’s Assessment District No. 2000-1 (Madrone Business Park), Limited Obligation Refunding Improvement Bonds, Series 2005B (Taxable).

“Reassessments” means the unpaid reassessments levied on properties within the District which secure the payment of Debt Service.

“Rebate Fund” means the fund by that name established pursuant to Section 6.02.

“Record Date” means the fifteenth (15th) day of the month next preceding the applicable Interest Payment Date whether or not such day is a Business Day.

“Redemption Fund” means the fund by that name established pursuant to Section 4.02(a).

“Registration Books” means the records maintained by the Fiscal Agent pursuant to Section 2.08 hereof for the registration and transfer of ownership of the Bonds.

“Resolution of Intention” means Resolution No. _____ of the City Council, referred to in the recitals hereof.

“Resolution of Issuance” means Resolution No. _____ of the City Council, referred to in the recitals hereof.

“Resolutions” means, collectively, the Resolution of Intention and the Resolution of Issuance.

“S&P” means Standard & Poor’s, a division of The McGraw Hill Companies, Inc., and its successors and assigns.

“Securities Depositories” means The Depository Trust Company, 55 Water Street, 50th Floor, New York, New York, 10041, Attn: Call Notification Department, Fax (212) 855-7232; or, in accordance with then current guidelines of the Securities and Exchange Commission, such other securities depositories, or no such depositories, as the City may designate in writing to the Fiscal Agent.

“Series” means, when used with reference to the Bonds, all of the Bonds authenticated and delivered on original issuance and identified pursuant to this Fiscal Agent Agreement authorizing such Bonds as a separate Series of Bonds, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to this Fiscal Agent Agreement.

“State” means the State of California.

“Supplemental Agreement” means a Supplemental Agreement entered into by the City and the Fiscal Agent for the purpose of modifying or amending this Agreement or the rights and obligations of the City and the Owners pursuant to Section 8.01 hereof.

“Tax Certificate” means the certificate (or similar instrument) relating to Section 148 of the Code executed by an authorized officer of the Authority and an authorized officer of the City and delivered upon the delivery of the Authority Bonds, or any functionally similar replacement certificate.

“2004-05 Assessments” means the assessment installments paid by the owners of property in the District during Fiscal Year 2004-05, as described in the Resolution of Issuance.

ARTICLE II

THE BONDS

Section 2.01. Principal Amount; Designation. The Reassessment 2005A Bonds in the aggregate principal amount of \$_____ and the Reassessment 2005B Bonds in the aggregate principal amount of \$_____ are hereby authorized to be issued by the City for the District under and subject to the terms of the Resolutions, this Agreement, the 1984 Refunding Act and other applicable laws of the State. The Reassessment 2005A Bonds shall be designated “The City of Morgan Hill Assessment District No. 2000-1 (Madrone Business Park), Limited Obligation Refunding Improvement Bonds, Series 2005A.” The Reassessment 2005B Bonds shall be designated “The City of Morgan Hill Assessment District No. 2000-1 (Madrone Business Park), Limited Obligation Refunding Improvement Bonds, Series 2005B (Taxable).” The Reassessment 2005A Bonds and the Reassessment 2005B Bonds shall be secured, on a parity, by the Reassessments.

Section 2.02. Terms of Bonds. (a) *The Bonds*. The Bonds of each Series shall be issued as fully registered bonds, without coupons, in the denominations of \$5,000 or any integral multiple thereof. The Bonds shall be lettered and numbered in a customary manner as determined by the City. The Bonds shall be dated the closing date.

(b) *Reassessment 2005A Bond Maturities*. The Reassessment 2005A Bonds shall mature and become payable on September 2 of each year, as follows:

<u>Maturity Date</u> <u>(September 2)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Maturity Date</u> <u>(September 2)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>
	\$	%		\$	%

(c) *Reassessment 2005B Bond Maturities*. The Reassessment 2005B Bonds shall mature and become payable on September 2 of each year, as follows:

<u>Maturity Date</u> <u>(September 2)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Maturity Date</u> <u>(September 2)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>
	\$	%		\$	%

(d) *Interest.* The Bonds shall bear interest at the rates set forth in subsections (b) and (c) above which shall be payable on the Interest Payment Dates in each year. Interest shall be calculated on the basis of a 360-day year composed of twelve 30-day months. Each Bond shall bear interest from the Interest Payment Date next preceding the date of authentication thereof unless (i) it is authenticated after a Record Date and before the close of business on the next Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or (ii) it is authenticated on or before the Record Date preceding the first Interest Payment Date, in which event it shall bear interest from the Closing Date; provided, however, that if at the time of authentication of a Bond, interest is in default thereon, such Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon or from the Closing Date, if no interest has previously been paid or made available for payment thereon.

(e) *Method of Payment.* Interest on the Bonds is payable by check of the Fiscal Agent mailed by first class mail, postage prepaid, on each Interest Payment Date, until the principal amount of a Bond has been paid or made available for payment, to the registered Owner thereof at such registered Owner's address as it appears on the Registration Books at the close of business on the Record Date preceding the Interest Payment Date or by wire transfer made on such Interest Payment Date upon written instructions of any owner of \$1,000,000 or more in aggregate principal amount of Bonds of a Series delivered to the Fiscal Agent prior to the applicable Record Date. The principal of the Bonds and any premium on the Bonds are payable in lawful money of the United States of America upon surrender of such Bonds at the Principal Office of the Fiscal Agent. All Bonds paid by the Fiscal Agent pursuant to this subsection shall be canceled and destroyed by the Fiscal Agent.

Section 2.03. Redemption.

(a) The Reassessment 2005A Bonds maturing on September 2, 20__ and September 2, 20__ are subject to redemption in part by lot from sinking fund payments made by the City, at a redemption price equal to the principal amount thereof to be redeemed with accrued interest thereon to the redemption date, without premium, in the aggregate respective principal amounts and on the respective dates as set forth in the following tables; provided, however, if some but not all of the term Reassessment 2005A Bonds of a maturity have been redeemed pursuant to an optional redemption or an extraordinary mandatory redemption as provided in Section 2.03(b), all future sinking fund payment with respect to such term Reassessment 2005A Bonds will be reduced, to be allocated among such sinking fund payments on a pro rata basis (as nearly as practicable) in integral multiples of \$5,000:

Reassessment 2005A Bonds Maturing on September 2, 20__

<u>Redemption Date</u>	<u>Principal Amount to be Redeemed</u>
------------------------	--

* maturity

Reassessment 2005A Bonds Maturing on September 2, 20__

<u>Redemption Date</u>	<u>Principal Amount to be Redeemed</u>
------------------------	--

* maturity

The Reassessment 2005B Bonds maturing on September 2, 20__ and September 2, 20__ are subject to redemption in part by lot from sinking fund payments made by the City, at a redemption price equal to the principal amount thereof to be redeemed with accrued interest thereon to the redemption date, without premium, in the aggregate respective principal amounts and on the respective dates as set forth in the following tables; provided, however, if some but not all of the term Reassessment 2005B Bonds of a maturity have been redeemed pursuant to an optional redemption or an extraordinary mandatory redemption as provided in Section 2.03(b), all future sinking fund payment with respect to such term Reassessment 2005B Bonds will be reduced, to be allocated among such sinking fund payments on a pro rata basis (as nearly as practicable) in integral multiples of \$5,000:

Reassessment 2005B Bonds Maturing on September 2, 20__

<u>Redemption Date</u>	<u>Principal Amount to be Redeemed</u>
------------------------	--

* maturity

Reassessment 2005B Bonds Maturing on September 2, 20

<u>Redemption Date</u>	<u>Principal Amount to be Redeemed</u>
------------------------	--

* maturity

(b) Subject to Section 2.12, the Bonds are subject to redemption prior to their stated maturity dates on any Interest Payment Date, as selected by the City, in integral multiples of \$5,000, at the option of the City from moneys derived by the City from any source or pursuant to Section 3.04(d), at the following redemption prices expressed as percentages of the principal amount of the Bonds to be redeemed, together with accrued interest to the date of redemption:

<u>Redemption Date</u>	<u>Redemption Price</u>
Prior to March 2, [2010]	103%
March 2, [2010] and September 2, [2010]	
March 2, [2011] and September 2, [2011]	
March 2, [2012] and thereafter	

(c) *Notice to Fiscal Agent.* An Authorized Officer shall give the Fiscal Agent written notice of the City's intention to redeem Bonds not less than forty-five (45) days prior to the applicable redemption date unless a shorter time is acceptable to the Fiscal Agent in its sole discretion specifying the principal amount and maturities of Bonds to be redeemed.

(d) *Redemption Procedure by Fiscal Agent.* The Fiscal Agent shall cause notice of any redemption to be provided by registered or certified mail or by personal service at least thirty (30) days prior to the date fixed for redemption, to the respective registered Owners of any Bonds designated for redemption, at their addresses appearing on the Registration Books. In addition to the foregoing, if the Registration Books shows that any of the Bonds subject to redemption is then owned by a person or entity other than the Authority, the Fiscal Agent shall send a notice of redemption at least thirty (30) days prior to the redemption date, by registered or certified mail, postage prepaid, or by overnight delivery service to the following: (i) each of the Securities Depositories, and (ii) one or more of the Information Services.

Such notice shall state the date of such notice, the date of issue of the Bonds, the Series designation of the Bonds, place or places of redemption, the redemption date, the redemption price whether the redemption is caused by a prepayment of Reassessments pursuant to Section 3.04(d) and, if less than all of the then Outstanding Bonds of a Series are to be called for redemption, shall designate the CUSIP numbers (if any) and Bond numbers of the Bonds to be redeemed, or shall state that all Bonds between two stated Bond numbers, both inclusive, are to be redeemed or that all of the Bonds of such Series of one or more maturities have been called for redemption, shall state as to any Bond called for redemption in part the portion of the principal of the Bond to be redeemed, shall require that such Bonds be then surrendered at the Principal Office of the Fiscal Agent for redemption at the said redemption price, and shall state that further interest on such Bonds will not accrue from and after the redemption

date. The cost of the mailing of any such redemption notice shall be paid by the City.

Neither failure to receive any redemption notice nor any defect in such redemption notice so given shall affect the sufficiency of the proceedings for the redemption of such Bonds. Upon the payment of the redemption price of Bonds being redeemed, each check or other transfer of funds issued for such purpose shall, to the extent practicable, identify, by issue, maturity and Bond number, the Bonds being redeemed with the proceeds of such check or other transfer.

Except as otherwise provided in Section 3.04(d), in the event of a redemption of Bonds, the Fiscal Agent shall deposit in the Redemption Fund moneys provided by the City in an amount equal to the redemption price of the Bonds being redeemed on or before the fifteenth (15th) day of the month preceding the Interest Payment Date upon which such Bonds are to be redeemed.

Whenever provision is made in this Agreement for the redemption of less than all of the Bonds of a Series, the Fiscal Agent shall select the Bonds of such Series for redemption in such a way that the ratio of Outstanding Bonds to issued Bonds shall be approximately the same in each maturity of the Bonds insofar as possible (*i.e.*, on a pro-rata basis), and shall select Bonds for redemption within each maturity of the Bonds by lot.

Upon surrender of Bonds redeemed in part only, the City shall execute and the Fiscal Agent shall authenticate and deliver to the Owner, at the expense of the City, a new Bond or Bonds, of the same Series and maturity, of authorized denominations in aggregate principal amount equal to the unredeemed portion of the Bond or Bonds. Such partial redemption shall be valid upon payment of the amount required to be paid to such Owner, and the City and the Fiscal Agent shall be released and discharged thereupon from all liability to the extent of such payment.

(e) Effect of Redemption. From and after the date fixed for redemption, if funds available for the payment of the redemption prices of the Bonds called for redemption shall have been deposited in the Redemption Fund or the Reassessment Prepayment Account, as applicable, such Bonds or portions thereof shall cease to be entitled to any benefit under this Agreement other than the right to receive payment of the redemption price, and interest shall cease to accrue on the Bonds or portions thereof to be redeemed on the redemption date specified in the notice of redemption.

All Bonds redeemed by the Fiscal Agent pursuant to this Section 2.03 shall be canceled and destroyed by the Fiscal Agent.

Section 2.04. Form of Bonds. The Bonds, the Fiscal Agent's certificate of authentication and the assignment to appear thereon shall be substantially in the forms, respectively, set forth in Exhibit A and Exhibit B attached hereto and by this reference incorporated herein, with necessary or appropriate variations, omissions and insertions as permitted or required by this Agreement.

Section 2.05. Execution of Bonds. The Bonds shall be executed by the manual or facsimile signatures of the Treasurer and the City Clerk of the City, who are in office on the date of this Agreement or at any time thereafter. If any officer whose signature appears on any Bond ceases to be such officer before delivery of the Bond to the Owner, such signature shall nevertheless be as effective as if the officer had remained in office until the delivery of the Bond to the Owner. Any Bond may be signed and attested by such persons as at the actual date of the execution of such Bond shall be the proper officers of the City notwithstanding that on the nominal date of such Bond any such person shall not have been such officer of the City.

Only such Bonds as shall bear thereon a certificate of authentication in substantially the form set forth in Exhibit A and Exhibit B hereto, manually executed by the Fiscal Agent, shall be valid or obligatory for any purpose or entitled to the benefits of this Agreement, and such certificate of authentication of the Fiscal Agent shall be conclusive evidence that such Bonds have been duly authenticated, registered and delivered hereunder, and are entitled to the benefits of this Agreement.

Section 2.06. Transfer of Bonds. Any Bond may, in accordance with its terms, be transferred, upon the books required to be kept pursuant to the provisions of Section 2.08 hereof, by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a duly executed written instrument of transfer in a form acceptable to the Fiscal Agent. The cost for any services rendered or any expenses incurred by the Fiscal Agent in connection with any such transfer shall be paid by the City. The Fiscal Agent shall collect from the Owner requesting transfer of a Bond any tax or other governmental charge required to be paid with respect to such transfer.

Whenever any Bond or Bonds shall be surrendered for transfer, the City shall execute and the Fiscal Agent shall authenticate and deliver a new Bond or Bonds of like aggregate principal amount of authorized denominations.

No transfers of Bonds shall be required to be made (a) during the fifteen (15) days preceding the date established by the Fiscal Agent for selection of Bonds for redemption, or (b) with respect to Bonds which have been selected for redemption.

Section 2.07. Exchange of Bonds. Bonds may be exchanged at the Principal Office of the Fiscal Agent only for a like aggregate principal amount of Bonds of authorized denominations, of the same Series, and of the same maturity. The cost for any services rendered or any expense incurred by the Fiscal Agent in connection with any such exchange shall be paid by the City. The Fiscal Agent shall collect from the Owner requesting exchange of a Bond any tax or other governmental charge required to be paid with respect to such exchange.

No exchanges of Bonds shall be required to be made (i) during the fifteen (15) days preceding the date established by the Fiscal Agent for selection of Bonds for redemption, or (ii) with respect to Bonds which have been selected for redemption.

Section 2.08. Bond Register. The Fiscal Agent shall keep, or cause to be kept, sufficient books for the registration and transfer of the Bonds which books shall show the series, number, CUSIP identification number (if any), date of issuance, amount, rate of interest and Owner of each Bond and shall at all times be open to inspection by the City during regular business hours upon reasonable notice; and, upon presentation for such purpose, the Fiscal Agent shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said books, the ownership of the Bonds as hereinbefore provided.

Section 2.09. Temporary Bonds. The Bonds may be initially issued in temporary form exchangeable for definitive Bonds when ready for delivery. The temporary Bonds may be printed, lithographed or typewritten, shall be of such denominations as may be determined by the City, and may contain such reference to any of the provisions of this Agreement as may be appropriate. Every temporary Bond shall be executed by the City upon the same conditions and in substantially the same manner as the definitive Bonds. If the City issues temporary Bonds, it will execute and furnish definitive Bonds without delay and thereupon the temporary Bonds shall be surrendered, for cancellation, in

exchange for the definitive Bonds at the Principal Office of the Fiscal Agent or at such other location as the Fiscal Agent shall designate, and the Fiscal Agent shall authenticate and deliver in exchange for such temporary Bonds an equal aggregate principal amount of definitive Bonds of like Series and authorized denominations. Until so exchanged, the temporary Bonds shall be entitled to the same benefits under this Agreement as definitive Bonds authenticated and delivered hereunder.

Section 2.10. Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond shall become mutilated, the City, at the expense of the Owner of said Bond, shall execute, and the Fiscal Agent shall authenticate and deliver, a replacement Bond of like tenor, Series, and principal amount in exchange and substitution for the Bond so mutilated, but only upon surrender to the Fiscal Agent of the Bond so mutilated. Every mutilated Bond so surrendered to the Fiscal Agent shall be canceled and destroyed by the Fiscal Agent. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Fiscal Agent and, if such evidence be satisfactory to it and indemnity satisfactory to it shall be given, the City, at the expense of the Owner, shall execute, and the Fiscal Agent shall authenticate and deliver, a replacement Bond of like tenor, Series, and principal amount in lieu of and in substitution for the Bond so lost, destroyed or stolen. The City or Fiscal Agent may require payment of a sum not exceeding the actual cost of preparing each replacement Bond delivered under this Section 2.10 and of the expenses which may be incurred by the City and the Fiscal Agent for the preparation, execution, authentication and delivery thereof. Any Bond delivered under the provisions of this Section 2.10 in replacement of any Bond alleged to be lost, destroyed or stolen shall constitute an original additional contractual obligation of the City whether or not the Bond so alleged to be lost, destroyed or stolen is at any time enforceable by anyone, and shall be equally and proportionately entitled to the benefits of this Agreement with all other Bonds issued pursuant to this Agreement.

Section 2.11. Special Obligation. All obligations of the City under this Agreement and the Bonds and interest thereon shall be special obligations of the City, payable solely from the Reassessment Revenues. Neither the faith and credit nor the taxing power of the City or the State of California or any political subdivision thereof is pledged to the payment of the Bonds or the interest thereon and no Owner of the Bonds may compel the exercise of any taxing power by the City or force the forfeiture of any of its property. The principal of, and premium (if any) and interest on the Bonds are not a debt of the City nor a legal or equitable pledge, charge, lien or encumbrance upon any of its property, or upon any of its income, receipts or revenues.

Section 2.12. Refunding; Advance Retirement of Bonds. At any time necessary or appropriate, the City may issue bonds to refund all or any portion of the Bonds as permitted by and in accordance with law including, but not limited to, the 1984 Refunding Act; provided, however, that the City agrees that it will not refund the Reassessment Bonds on a current basis before March 2, [2010]. In addition, the City agrees that it will not advance the maturity of any Reassessment Bond pursuant to Part 11 (commencing with Section 8750) of Division 10 of the California Streets and Highway Code before March 2, [2010].

ARTICLE III

ISSUANCE OF BONDS; APPLICATION OF PROCEEDS; REASSESSMENT FUND

Section 3.01. Issuance and Delivery of Bonds. At any time after the execution and delivery of this Agreement, the City may issue the Bonds in the aggregate principal amount set forth in Section 2.01 hereof and deliver the Bonds to the Authority, as the original purchaser. The Authorized Officers of the City are hereby authorized and directed to deliver any and all documents and instruments necessary to

cause the issuance of the Bonds in accordance with the provisions of the 1915 Act, the 1984 Refunding Act, the Resolutions and this Agreement and to do and cause to be done any and all acts and things necessary or convenient for delivery of the Bonds to the Authority.

Section 3.02. Application of Proceeds of Sale of Bonds.

(a) *Reassessment 2005A Bonds.* The proceeds of the sale of the Reassessment 2005A Bonds in the amount of \$_____ (equal to the par amount of the Reassessment 2005A Bonds, less an original issue discount and a purchaser's discount) shall be applied as follows:

(i) \$_____ shall be retained by the Authority to pay, on behalf of the City, for Costs of Issuance in connection with the Reassessment 2005A Bonds; and

(ii) The remaining proceeds, in the amount of \$_____, shall be transferred to the Prior Bonds Escrow Agent for application pursuant to the Escrow Agreement.

(b) *Reassessment 2005B Bonds.* The proceeds of the sale of the Reassessment 2005B Bonds in the amount of \$_____ (equal to the par amount of the Reassessment 2005B Bonds, less an original issue discount and a purchaser's discount) shall be applied as follows:

(i) \$_____ shall be retained by the Authority to pay, on behalf of the City, for Costs of Issuance in connection with the Reassessment 2005B Bonds; and

(ii) The remaining proceeds, in the amount of \$_____, shall be transferred to the Prior Bonds Escrow Agent for application pursuant to the Escrow Agreement.

Section 3.03. [Reserved]

Section 3.04. Reassessment Fund. (a) *Establishment of Reassessment Fund.* There is hereby established, as a separate account to be held by the Fiscal Agent, the "Reassessment Fund" to the credit of which the Fiscal Agent shall deposit all Reassessment Revenues received by the Fiscal Agent from the City except for the prepayment of reassessments. Upon receiving any Reassessment Revenues from the County, the City may deduct therefrom the amounts included therein, or a portion thereof, for payment of the City's expenses associated with the collection of the Reassessment Revenues and payment of the annual costs associated with the registration of the Bonds and the other duties of the Fiscal Agent provided for herein, and transfer the remainder thereof to the Fiscal Agent for deposit in the Reassessment Fund. Moneys in the Reassessment Fund shall be held by the Fiscal Agent for the benefit of the City and the Owners of the Bonds, as hereinafter provided, shall be disbursed as provided below and, pending disbursement, shall be subject to a lien in favor of the Owners of the Bonds. The Fiscal Agent shall establish and maintain within the Reassessment Fund a "Reassessment Prepayment Account" and shall also establish and maintain within the Reassessment Prepayment Account a "2005A Subaccount" and a "2005B Subaccount."

(b) *Disbursements.* Not later than the third Business Day preceding each Interest Payment Date, the Fiscal Agent shall withdraw from the Reassessment Fund and deposit in the Redemption Fund the amount which is necessary to pay Debt Service on the Interest Payment Date.

On September 3 of each year, beginning on September 3, 2005, the amount on deposit in the Reassessment Fund, together with the amount then on deposit in the Redemption Fund, shall not exceed

the greater of (i) one year's earnings on such amounts, or (ii) one-twelfth (1/12th) of Annual Debt Service for the then current Bond Year. If on September 3 of any year the amount on deposit in the Reassessment Fund, together with the amount then on deposit in the Redemption Fund, exceeds the maximum amount allowable pursuant to the preceding sentence and if on such September 3 the City shall have delivered to the Fiscal Agent an Officer's Certificate containing the information required below in this paragraph, the excess shall be paid by the Fiscal Agent to the City as directed by such Officer's Certificate. On September 3 of each year, after any such excess amount has been transferred as hereinabove provided, the amount on deposit in the Reassessment Fund, together with the amount then on deposit in the Redemption Fund, shall not exceed in the aggregate the greater of (i) one year's earnings thereon, or (ii) one-twelfth (1/12th) of Annual Debt Service for the then current Bond Year. An Officer's Certificate delivered by the City to the Fiscal Agent pursuant to this paragraph shall specify the dollar amount of the excess determined pursuant to the first sentence of this paragraph which the Fiscal Agent is to pay to the City. Upon receipt of such an Officer's Certificate, the Fiscal Agent is authorized to act thereon without further inquiry, shall not be responsible for the accuracy of the statements contained therein, and shall be absolutely protected and incur no liability in relying on such Officer's Certificate.

(c) *Investment.* Moneys in the Reassessment Fund shall be invested and deposited in accordance with Section 6.01 hereof. Investment Earnings shall be retained in the Reassessment Fund to be used for the purposes of such fund.

(d) *Prepayment of Reassessments.* Amounts received from property owners in the District as prepayments of the Reassessment pursuant to the 1915 Act shall be deposited by the City Treasurer and held by the Fiscal Agent in the Reassessment Prepayment Account for application pursuant to Section 3.04(e). The City shall identify to the Fiscal Agent in writing the amount of such prepayment. Amounts in the Reassessment Prepayment Account shall be used to pay the principal of and redemption premium on Bonds to be called for redemption as provided in the next sentence. Subject to the priority of disbursements set forth in Section 3.04(e), (i) whenever and to the extent monies are on deposit in the 2005A Subaccount of the Reassessment Prepayment Account are sufficient to pay on redemption the principal of Reassessment 2005A Bonds in integral \$5,000 amounts plus the redemption premium thereon (if any), the Fiscal Agent shall advance the maturity of and call Reassessment 2005A Bonds for redemption pursuant to Section 2.03(b), and (ii) whenever and to the extent monies are on deposit in the 2005B Subaccount of the Reassessment Prepayment Account are sufficient to pay on redemption the principal of Reassessment 2005B Bonds in integral \$5,000 amounts plus the redemption premium thereon (if any), the Fiscal Agent shall advance the maturity of and call Reassessment 2005B Bonds for redemption pursuant to Section 2.03(b). On or after each redemption date, upon presentation and surrender thereof, the Fiscal Agent shall pay the principal of and redemption premium on each Bond the maturity of which has been so advanced from monies in the Reassessment Prepayment Account. Interest accrued on each such Bond shall be paid from monies in the Redemption Fund.

(e) *Application of Prepaid Reassessments.* Upon receiving a prepayment of a Reassessment, the City Treasurer shall transfer it to the Fiscal Agent for deposit in the Reassessment Prepayment Account. From the Reassessment Prepayment Account, the Fiscal Agent shall make disbursements in the following priority as specified by the City as follows:

(i) The administrative fee in the amount specified to the Fiscal Agent by the City shall be transferred to the City for deposit in the general fund of the City.

(ii) Delinquent principal, interest, and penalties shall be transferred to the Redemption Fund.

(iii) The installment of principal due in the Fiscal Year of prepayment shall be transferred to the Redemption Fund.

(iv) Interest accrued to the next call date shall be transferred to the Redemption Fund.

(v) The balance in the Reassessment Prepayment Account shall be deposited in the 2005A Subaccount and the 2005B Subaccount of the Reassessment Prepayment Account respectively, pro rata based on the principal amounts of the Reassessment 2005A Bonds and the Reassessment 2005B Bonds then Outstanding. Moneys in the 2005A Subaccount of the Reassessment Prepayment Account shall be used to redeem Reassessment 2005A Bonds to the next call date as provided in Section 2.03(b) hereof. Moneys in the 2005B Subaccount of the Reassessment Prepayment Account shall be used to redeem Reassessment 2005B Bonds to the next call date as provided in Section 2.03(b) hereof. The amount of each Series of Bonds to be retired shall be the maximum for which principal and redemption premium may be paid in full from the respective subaccount of the Reassessment Prepayment Account. Accrued interest on Bonds to be retired shall be paid from the Redemption Fund.

ARTICLE IV

REASSESSMENT REVENUES; REDEMPTION FUND

Section 4.01. Pledge of Reassessment Revenues. The Bonds shall be secured by a pledge (which pledge shall be effected in the manner and to the extent herein provided) of all of the Reassessment Revenues and all moneys deposited in the Redemption Fund. The Reassessment Revenues and all moneys deposited into such funds are hereby dedicated in their entirety to the payment of the principal of the Bonds, and interest and any premium on, the Bonds as provided herein, until all of the Bonds have been paid and retired or until moneys or Federal Securities have been set aside irrevocably for that purpose in accordance with Section 9.03 hereof.

Section 4.02. Redemption Fund. (a) *Deposits*. There is hereby established, as a separate account to be held by the Fiscal Agent, the "Redemption Fund" to the credit of which deposits shall be made as required by the provisions of this Agreement. Moneys in the Redemption Fund shall be held by the Fiscal Agent for the benefit of the Owners of the Bonds, shall be disbursed for the payment of the principal of, and interest and any premium on, the Bonds as provided below, and, pending such disbursement, shall be subject to a lien in favor of the Owners of the Bonds.

(b) *Disbursements*. On each Interest Payment Date, the Fiscal Agent shall withdraw from the Redemption Fund and pay to the Owners of the Bonds the principal of and interest and any premium then due and payable on the Bonds on the Interest Payment Date.

If, on any Interest Payment Date, there will be insufficient funds in the Redemption Fund to make the payments provided for in the first paragraph of this Section 4.02(b), the Fiscal Agent shall apply the available funds first to the payment of interest on the Bonds, and then to the payment of principal due on the Bonds.

As provided in the form of the Bonds attached hereto as Exhibit A and Exhibit B, the City Council has determined, pursuant to Section 8769(b) of the California Streets and Highway Code that the City will not obligate itself to advance available funds from the City Treasury to cure any deficiency which may occur in the Redemption Fund.

On September 3 of each year, beginning on September 3, 2005, the amount on deposit in the Redemption Fund, together with the amount then on deposit in the Reassessment Fund, shall not exceed the greater of (i) one year's earnings on such amounts, or (ii) one-twelfth (1/12th) of Annual Debt Service for the then current Bond Year. If on September 3 of any year the amount on deposit in the Redemption Fund, together with the amount then on deposit in the Reassessment Fund, exceeds the maximum amount allowable pursuant to the preceding sentence and if on such September 3 the City shall have delivered to the Fiscal Agent an Officer's Certificate containing the information required below in this paragraph, the excess shall be paid by the Fiscal Agent to the City as directed by such Officer's Certificate. On September 3 of each year, after any such excess amount has been paid as hereinabove provided, the amount on deposit in the Redemption Fund, together with the amount then on deposit in the Reassessment Fund, shall not exceed the greater of (i) one year's earnings thereon, or (ii) one-twelfth (1/12th) of Annual Debt Service for the then current Bond Year. An Officer's Certificate delivered by the City to Fiscal Agent pursuant to this paragraph shall specify the dollar amount of the excess determined pursuant to the first sentence of this paragraph which the Fiscal Agent is to pay to the City. Upon receipt of such an Officer's Certificate, the Fiscal Agent is authorized to act thereon without further inquiry, shall not be responsible for the accuracy of the statements contained therein, and shall be absolutely protected and incur no liability in relying on such Officer's Certificate.

Amounts in the Redemption Fund shall also be withdrawn and deposited in the Rebate Fund as provided in Section 6.02 hereof.

(c) *Investment.* Moneys in the Redemption Fund shall be invested and deposited in accordance with Section 6.01 hereof. Investment Earnings shall be retained in the Redemption Fund, except to the extent they are required to be deposited by the Fiscal Agent in the Rebate Fund in accordance with Section 6.02 hereof.

ARTICLE V

OTHER COVENANTS, REPRESENTATIONS AND DECLARATIONS OF THE CITY

Section 5.01. Punctual Payment. The City will punctually pay or cause to be paid the principal of and interest and any premium on the Bonds when and as due in strict conformity with the terms of this Agreement and any Supplemental Agreement to the extent that the Reassessment Revenues are available therefor, and it will faithfully observe and perform all of the conditions, covenants and requirements of this Agreement and all Supplemental Agreements and of the Bonds.

Section 5.02. Special Obligation. The Bonds are special obligations of the City and are payable solely from and secured solely by the Reassessment Revenues and the amounts in the Redemption Fund and the Reassessment Fund.

Section 5.03. Extension of Time for Payment. In order to prevent any accumulation of claims for interest after maturity, the City shall not, directly or indirectly, extend or consent to the extension of the time for the payment of any claim for interest on any of the Bonds and shall not, directly or indirectly, be a party to the approval of any such arrangement by purchasing or funding said claims for interest or in any other manner. In case any such claim for interest shall be extended or funded, whether or not with the consent of the City, such claim for interest so extended or funded shall not be entitled, in case of default hereunder, to the benefits of this Agreement, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest which shall not have been so

extended or funded.

Section 5.04. Against Encumbrances. The City shall not encumber, pledge or place any charge or lien upon any of the Reassessment Revenues or other amounts pledged to the Bonds superior to or on a parity with the pledge and lien herein created for the benefit of the Bonds, except as permitted by this Agreement.

Section 5.05. Protection of Security and Rights of Owners. The City will preserve and protect the security of the Bonds and the rights of the Owners, and will warrant and defend their rights against all claims and demands of all persons. From and after the delivery of any of the Bonds by the City, the Bonds shall be incontestable by the City.

Section 5.06. Collection of Reassessment Revenues. The City shall comply with all requirements of the 1915 Act so as to assure the timely collection of Reassessment Revenues, including without limitation, the enforcement of the payment or collection of delinquent Reassessments.

Section 5.07. Further Assurances. The City will adopt, make, execute and deliver any and all such further ordinances, resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Agreement, and for better assuring and confirming unto the Owners of the Bonds the rights and benefits provided in this Agreement.

Section 5.08. Tax Covenants. The City hereby covenants that with respect to the Reassessment 2005A Bonds:

(a) It will not take any action or omit to take any action, which action or omission, if reasonably expected on the date of the initial issuance and delivery of the Reassessment 2005A Bonds, would have caused any of the Reassessment 2005A Bonds to be “arbitrage bonds” within the meaning of Section 103(b) and Section 148 of the Code;

(b) It will not take any action or omit to take any action, which action or omission, if reasonably expected on the date of initial issuance and delivery of the Reassessment 2005A Bonds, would result in loss of exclusion from gross income for purposes of federal income taxation under Section 103(a) of the Code of interest paid with respect to the Reassessment 2005A Bonds;

(c) It will not take any action or omit to take any action, which action or omission, if reasonably expected on the date of initial issuance and delivery of the Reassessment 2005A Bonds, would have caused any of the Reassessment 2005A Bonds to be “private activity bonds” within the meaning of Section 141 of the Code;

(d) It will comply with the Tax Certificate as a source of guidance for achieving compliance with the Code; and

(e) In order to maintain the exclusion from gross income for purposes of federal income taxation of interest paid with respect to the Reassessment 2005A Bonds, it will comply with each applicable requirement of Section 103 and Sections 141 through 150 of the Code.

The covenants of the City contained in this Section 5.08 shall survive the payment, redemption or defeasance of the Reassessment 2005A Bonds pursuant to Section 9.03 hereof. The Fiscal Agent makes no warranties, covenants or representations regarding the current or future tax status of interest on the

Bonds.

Section 5.09. Covenant to Foreclose. The City hereby covenants with and for the benefit of the Owners of the Bonds that it will order, and cause to be commenced, judicial foreclosure proceedings against properties with delinquent Reassessment installments in excess of \$5,000 by the October 1 following the close of the Fiscal Year in which such installments were due, and will commence judicial foreclosure proceedings against all properties with delinquent Reassessment installments by the October 1 following the close of each Fiscal Year in which it receives Reassessment Revenues in an amount which is less than ninety-five percent (95%) of the total Reassessment Revenues which were to be received in the Fiscal Year and diligently pursue to completion such foreclosure proceedings; provided, however, the City may elect to defer the commencement of foreclosure proceedings with respect to any property so long as the City is current in the payment of Debt Service.

ARTICLE VI

INVESTMENTS; REBATE FUND; LIABILITY OF THE CITY

Section 6.01. Deposit and Investment of Moneys in Funds. Subject in all respects to the provisions of Section 6.02 hereof, moneys in any fund or account created or established by this Agreement and held by the Fiscal Agent shall be invested by the Fiscal Agent in Permitted Investments, as directed pursuant to an Officer's Certificate filed with the Fiscal Agent at least two (2) Business Days in advance of the making of such investments. In the absence of any such Officer's Certificate, the Fiscal Agent shall invest any such moneys in Permitted Investments described in paragraph (d) of the definition of Permitted Investments in Section 1.03 hereof. Except as specifically provided herein, the Fiscal Agent shall have no obligation to pay additional interest or maximize investment income on any funds held by it. Neither the City nor the Owners of the Bonds shall have any claim of any kind against the Fiscal Agent in connection with investments properly made pursuant to this Section 6.01. Obligations purchased as an investment of moneys in any fund or account shall be deemed to be part of such fund or account, subject, however, to the requirements of this Agreement for transfer of Investment Earnings in funds and accounts.

The Fiscal Agent shall be entitled to rely conclusively upon the written instructions of the City directing investments in Permitted Investments as to the fact that each such investment is permitted by the laws of the State, and shall not be required to make further investigation with respect thereto. With respect to any restrictions contained in the definition of Permitted Investments in Section 1.03 hereof which embody legal conclusions (e.g., the existence, validity and perfection of security interests in collateral), the Fiscal Agent shall be entitled to rely conclusively on an opinion of counsel obtained at the City's expense.

The Fiscal Agent may act as principal or agent in the acquisition or disposition of any investment and may engage in or be interested in any financial or other transaction with the City. The Fiscal Agent shall not incur any liability for losses arising from any investments made pursuant to this Section 6.01. For purposes of determining the amount on deposit in any fund or account held hereunder, all Permitted Investments or investments credited to such fund or account shall be valued at the cost thereof (excluding accrued interest and brokerage commissions, if any).

Subject in all respects to the provisions of Section 6.02 hereof, investments in any and all funds and accounts may be commingled in a single fund for purposes of making, holding and disposing of

investments, notwithstanding provisions herein for transfer to or holding in or to the credit of particular funds or accounts of amounts received or held by the Fiscal Agent hereunder, provided that the Fiscal Agent shall at all times account for such investments strictly in accordance with the funds and accounts to which they are credited and otherwise as provided in this Agreement.

The Fiscal Agent shall sell or present for redemption, any investment security whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such investment security is credited, and the Fiscal Agent shall not be liable or responsible for any loss resulting from the acquisition or disposition of any such investment security in accordance herewith.

The City acknowledges that to the extent regulations of the Comptroller of the Currency or any other applicable regulatory agency grant the City the right to receive brokerage confirmations of security transactions as they occur, the City specifically waives receipt of such confirmations to the extent permitted by law. The City shall be provided periodic cash transaction statements which include detail for all investment transactions made by the Fiscal Agent hereunder.

The Fiscal Agent or any of its affiliates may act as sponsor, advisor or manager in connection with any investments made by the Fiscal Agent hereunder.

Section 6.02. Rebate Fund; Rebate to United States. There is hereby created, to be held by the Fiscal Agent, as a separate account distinct from all other funds and accounts held by the Fiscal Agent under this Agreement, the Rebate Fund. Pursuant to the written direction of the City, the Fiscal Agent shall deposit into the Rebate Fund moneys transferred by the City to the Fiscal Agent pursuant to the Tax Certificate. The Rebate Fund shall be held either uninvested or invested only in Federal Securities at the direction of the City. Moneys on deposit in the Rebate Fund shall be applied only to payments made to the United States, to the extent such payments are required by the Tax Certificate. The Fiscal Agent shall, upon written direction of the City, make such payments to the United States.

The Fiscal Agent's sole responsibilities under this Section 6.02 are to follow the written instructions of the City pertaining hereto and the Fiscal Agent shall have no independent responsibility to monitor or enforce compliance by the City with the Tax Certificate. The City shall be responsible for any fees and expenses incurred by the Fiscal Agent pursuant to this Section 6.02.

The Fiscal Agent shall, upon written request and direction from the City, transfer to or upon the order of the City any moneys on deposit in the Rebate Fund in excess of the amount, if any, required to be maintained or held therein in accordance with the Tax Certificate. Upon receipt of such a written request and direction the Fiscal Agent is authorized to act thereon without further inquiry, shall not be responsible for the accuracy thereof, and shall be absolutely protected and incur no liability in relying thereon.

Section 6.03. Liability of City. The City shall not incur any responsibility in respect of the Bonds or this Agreement other than in connection with the duties or obligations explicitly herein or in the Bonds assigned to or imposed upon it. The City shall not be liable in connection with the performance of its duties hereunder, except for its own negligence or willful default.

In the absence of bad faith, the City may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the City and conforming to the requirements of this Agreement. The City shall not be liable for any error of judgment made in good faith unless it shall be proved that it was negligent in ascertaining the pertinent facts.

No provision of this Agreement shall require the City to expend or risk its own general funds or otherwise incur any financial liability (other than with respect to the Reassessment Revenues) in the performance of any of its obligations hereunder, or in the exercise of and of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

The City may rely and shall be protected in acting or refraining from acting upon any notice, resolution, request, consent, order, certificate, report, warrant, bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or proper parties. The City may consult with counsel, who may be counsel to the City, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith.

Section 6.04. Employment of Agents by the City. In order to perform its duties and obligations hereunder, the City may employ such persons or entities as it deems necessary or advisable. The City shall not be liable for any of the acts or omissions of such persons or entities employed by it in good faith hereunder, and shall be entitled to rely, and shall be fully protected in doing so, upon the opinions, calculations, determinations and directions of such persons or entities.

ARTICLE VII

THE FISCAL AGENT

Section 7.01. Appointment of Fiscal Agent. The Bank of New York Trust Company, N.A., is hereby appointed Fiscal Agent, registrar and paying agent for the Bonds. The Fiscal Agent undertakes to perform such duties, and only such duties, as are specifically set forth in this Agreement, and no implied covenants or obligations shall be read into this Agreement against the Fiscal Agent.

Any financial institution into which the Fiscal Agent may be merged or converted or with which it may be consolidated or any financial institution resulting from any merger, conversion or consolidation to which it shall be a party or any financial institution to which the Fiscal Agent may sell or transfer all or substantially all of its corporate trust business, provided such financial institution shall be eligible under the following paragraph of this Section 7.01, shall be the successor to the Fiscal Agent without the execution or filing of any paper or any further act, anything herein to the contrary notwithstanding.

The City may remove the Fiscal Agent initially appointed, and any successor thereto, and the City may appoint a successor or successors thereto, but any such successor shall be a financial institution having (or in the case of a corporation or trust company included in a bank holding company system, the related bank holding company shall have) a combined capital (exclusive of borrowed capital) and surplus of at least \$75,000,000, and subject to supervision or examination by federal or state authority. If such financial institution publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of this Section 7.01, combined capital and surplus of such financial institution shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

The Fiscal Agent may at any time resign by giving thirty (30) days' written notice to the City and by giving to the Owners notice by mail of such resignation. Upon receiving notice of such resignation, the City shall promptly appoint a successor Fiscal Agent by an instrument in writing. Any resignation or removal of the Fiscal Agent shall become effective upon acceptance of appointment by the successor

Fiscal Agent.

If no appointment of a successor Fiscal Agent shall be made pursuant to the foregoing provisions of this Section 7.01 within sixty (60) days after the Fiscal Agent shall have given to the City written notice or after a vacancy in the office of the Fiscal Agent shall have occurred by reason of its inability to act, the Fiscal Agent, at the expense of the City, or any Owner may apply to any court of competent jurisdiction to appoint a successor Fiscal Agent. Said court may thereupon, after such notice, if any, as such court may deem proper, appoint a successor Fiscal Agent.

Section 7.02. Liability of Fiscal Agent. The recitals of facts, covenants and agreements herein and in the Bonds contained shall be taken as statements, covenants and agreements of the City and the Fiscal Agent assumes no responsibility for the correctness of the same, nor makes any representations as to the validity or sufficiency of this Agreement or of the Bonds, nor shall the Fiscal Agent incur any responsibility in respect thereof, other than in connection with the duties or obligations herein or in the Bonds expressly assigned to or imposed upon it. The Fiscal Agent shall not be liable in connection with the performance of its duties hereunder, except for its own negligence or willful misconduct. The Fiscal Agent assumes no responsibility or liability for any information, statement or recital in any offering memorandum or other disclosure material prepared or distributed with respect to the issuance of the Bonds.

In the absence of willful misconduct, the Fiscal Agent may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates, written directions or opinions furnished to the Fiscal Agent and conforming to the requirements of this Agreement. Except as provided above in this paragraph, the Fiscal Agent shall be protected and shall incur no liability in acting or proceeding, or in not acting or not proceeding, in accordance with the terms of this Agreement, upon any resolution, order, notice, request, consent or waiver, certificate, statement, affidavit, facsimile transmission, electronic mail or other paper or document which it shall reasonably believe to be genuine and to have been adopted or signed by the proper person or to have been prepared and furnished pursuant to any provision of this Agreement, and the Fiscal Agent shall not be under any duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument.

The Fiscal Agent shall not be liable for any error of judgment made by a responsible officer of the Fiscal Agent unless it shall be proved that the Fiscal Agent was negligent in ascertaining the pertinent facts.

No provision of this Agreement shall require the Fiscal Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers unless an indemnity and security satisfactory to the Fiscal Agent shall have been provided to the Fiscal Agent.

The Fiscal Agent shall not be responsible for accounting for, or paying to, any party to this Agreement, including, but not limited to the City and the Owners, any returns on or benefit from funds held for payment of unredeemed Bonds or outstanding checks and no calculation of the same shall affect, or result in any offset against, fees due to the Fiscal Agent under this Agreement.

The Fiscal Agent shall have no responsibility with respect to the payment of Debt Service by the City or with respect to the observance or performance by the City of the other conditions, covenants and terms contained herein, or with respect to the investment of any moneys in any fund or account established, held or maintained by the City pursuant to this Fiscal Agent Agreement or otherwise.

All indemnification and releases from liability granted herein to the Fiscal Agent shall extend to the directors, officers and employees of the Fiscal Agent. The Fiscal Agent may execute any of its trusts or powers or perform its duties through attorneys, agents or receivers.

The Fiscal Agent shall not be considered in breach of or in default in its obligations hereunder or progress in respect thereto in the event of enforced delay (“unavoidable delay”) in the performance of such obligations due to unforeseeable causes beyond its control and without its fault or negligence, including, but not limited to, Acts of God or of the public enemy or terrorists, acts of a government, acts of the other party, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, earthquakes, explosion, mob violence, riot, inability to procure or general sabotage or rationing of labor, equipment, facilities, sources or energy, material or supplies in the open market, litigation or arbitration involving a party or others relating to zoning or other governmental action or inaction pertaining to the project, malicious mischief, condemnation, and unusually severe weather or delays of suppliers or subcontractors due to such causes or any similar event and/or occurrences beyond the control of the Fiscal Agent; provided that, in the event of any such unavoidable delay under this paragraph, the Fiscal Agent notify the City in writing within five (5) business days after (i) the occurrence of the event giving rise to the unavoidable delay, (ii) the Fiscal Agent’s actual knowledge of the impending unavoidable delay, or (iii) the Fiscal Agent’s knowledge of sufficient facts under which a reasonable person would conclude the unavoidable delay will occur.

Section 7.03. Information. The Fiscal Agent shall provide to the City such information relating to the Bonds and the funds and accounts maintained by the Fiscal Agent hereunder as the City shall reasonably request, including, but not limited to, quarterly statements reporting funds held and transactions by the Fiscal Agent.

Section 7.04. Reliance by Fiscal Agent. The Fiscal Agent may rely and shall be protected in acting or refraining from acting upon any notice, resolution, request, consent, order, certificate, written direction, report, warrant, Bond, facsimile transmission, electronic mail or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or proper parties. The Fiscal Agent may consult with counsel, who may be counsel to the City, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by the Fiscal Agent hereunder in accordance therewith.

Whenever in the administration of its duties under this Agreement the Fiscal Agent shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of willful misconduct on the part of the Fiscal Agent, be deemed to be conclusively proved and established by a certificate of the City, and such certificate shall be full warranty to the Fiscal Agent for any action taken or suffered under the provisions of this Agreement or any Supplemental Agreement upon the faith thereof, but in its discretion the Fiscal Agent may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

Section 7.05. Compensation; Indemnification. The City shall pay to the Fiscal Agent from time to time reasonable compensation for all services rendered as Fiscal Agent under this Agreement, and also all reasonable expenses, charges, fees and other disbursements, including those of its attorneys (including the allocated costs and disbursements of in-house counsel), agents and employees, incurred in and about the performance of its powers and duties under this Agreement, and the Fiscal Agent shall have a lien therefor on any funds at any time held by it under this Agreement. The City further agrees, to the extent permitted by applicable law, to indemnify and save the Fiscal Agent, its officers, employees, directors and

agents, harmless against any costs, claims, expenses or liabilities, including, without limitation fees and expenses of its attorneys, which it may incur in the exercise and performance of its powers and duties hereunder which are not due to its negligence or willful misconduct. The obligation of the City under this Section 7.05 shall survive resignation or removal of the Fiscal Agent under this Agreement and payment of the Bonds and discharge of this Agreement.

Section 7.06. Books and Accounts. The Fiscal Agent shall keep, or cause to be kept, proper books of record and accounts, separate from all other records and accounts of the Fiscal Agent, in which complete and correct entries shall be made of all transactions made by it with respect to the expenditure of amounts disbursed from the Redemption Fund and the Reassessment Fund. Such books of record and accounts shall, upon reasonable notice, at all times during business hours be subject to the inspection of the City and the Owners of not less than ten percent (10%) of the aggregate principal amount of the Bonds then Outstanding, or their representatives duly authorized in writing.

ARTICLE VIII MODIFICATION OR AMENDMENT OF THIS AGREEMENT

Section 8.01. Amendments Permitted. (a) Subject to Section 8.09 below, this Agreement and the rights and obligations of the City and of the Owners of the Bonds may be modified or amended at any time by a Supplemental Agreement pursuant to the affirmative vote at a meeting of the Owners, or with the written consent, without a meeting, of the Owners of at least sixty percent (60%) in aggregate principal amount of the affected Bonds then Outstanding, exclusive of Bonds disqualified as provided in Section 8.04 hereof. No such modification or amendment shall (i) extend the maturity of any Bond or the time for paying interest thereon, or otherwise alter or impair the obligation of the City to pay the principal of, and the interest and any premium on, any Bond, without the express consent of the Owner of such Bond, or (ii) permit the creation of any pledge of or lien upon the Reassessment Revenues, or the moneys on deposit in the Redemption Fund, superior to or on a parity with the pledge and lien created for the benefit of the Bonds (except as otherwise permitted by the 1915 Act or the 1984 Refunding Act), the laws of the State or this Agreement), (iii) reduce the percentage of Bonds required for the amendment hereof, (iv) reduce the principal amount of or redemption premium on any Bond or reduce the interest rate thereon, or (v) modify the rights or obligations of the Fiscal Agent without its prior consent.

(b) Subject to Section 8.09 below, this Agreement and the rights and obligations of the City and the Owners may also be modified or amended at any time by a Supplemental Agreement, without the consent of any Owners, only to the extent permitted by law and only for any one or more of the following purposes:

(i) to add to the covenants and agreements of the City in this Agreement contained, other covenants and agreements thereafter to be observed, or to limit or surrender any right or power herein reserved to or conferred upon the City;

(ii) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provisions of this Agreement, or in regard to questions arising under this Agreement, as the City and the Fiscal Agent may deem necessary or desirable and not inconsistent with this Agreement, and which shall not be materially adverse to the interests of the Owners of the Bonds; or

(iii) to make such additions, deletions or modifications as may be necessary or

desirable to assure compliance with Section 148 of the Code relating to required rebate of moneys to the United States or otherwise as may be necessary to assure exclusion from gross income for federal income tax purposes of interest on the Bonds or to conform with the Code.

(iv) to modify, amend or supplement this Agreement in such manner as to permit the qualification hereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect; and

(v) to make other modifications not adversely affecting any Outstanding Bonds in any material respect.

Section 8.02. Owners' Meetings. The City may at any time call a meeting of the Owners. In such event the City is authorized to fix the time and place of any such meeting and to provide for the giving of notice thereof and to fix and adopt rules and regulations for the conduct of the meeting.

Section 8.03. Procedure for Amendment with Written Consent of Owners. To the extent that such amendment is permitted by Section 8.01(a) hereof, the City may at any time enter into a Supplemental Agreement amending the provisions of the Bonds or of this Agreement or any Supplemental Agreement, to take effect when and as provided in this Section 8.03. A copy of the Supplemental Agreement, together with a request to Owners for their consent thereto, shall be mailed by first class mail, postage prepaid, by the City to each Owner of Bonds Outstanding, but failure to mail copies of the Supplemental Agreement and request shall not affect the validity of the Supplemental Agreement when assented to as in this Section provided.

Such a Supplemental Agreement shall not become effective unless there shall be filed with the City the written consents of the Owners of at least sixty percent (60%) in aggregate principal amount of the affected Bonds then Outstanding (exclusive of Bonds disqualified as provided in Section 8.04 hereof) and a notice shall have been mailed as hereinafter in this Section provided. Each such consent shall be effective only if accompanied by proof of ownership of the Bonds for which such consent is given, which proof shall be such as is permitted by Section 9.04 hereof. Any such consent shall be binding upon the Owner of the Bonds giving such consent and on any subsequent Owner (whether or not such subsequent Owner has notice thereof) unless such consent is revoked in writing by the Owner giving such consent or a subsequent Owner by filing such revocation with the City prior to the date when the notice hereinafter in this Section provided for has been mailed.

After the Owners of the required percentage of Bonds shall have filed their consents to the Supplemental Agreement, the City shall mail a notice to the Owners in the manner hereinbefore provided in this Section for the mailing of the Supplemental Agreement, stating in substance that the Supplemental Agreement has been consented to by the Owners of the required percentage of Bonds and will be effective as provided in this Section (but failure to mail copies of said notice shall not affect the validity of the Supplemental Agreement or consents thereto). Proof of the mailing of such notice shall be filed with the City. A record, consisting of the papers required by this Section 8.03 to be filed with the City, shall be proof of the matters therein stated until the contrary is proved. The Supplemental Agreement shall become effective upon the filing with the City of the proof of mailing of such notice, and the Supplemental Agreement shall be deemed conclusively binding upon the City and the Owners of all Bonds then Outstanding.

Section 8.04. Disqualified Bonds. Bonds owned or held for the account of the City, excepting any pension or retirement fund, shall not be deemed Outstanding for the purpose of any vote, consent or

other action or any calculation of Outstanding Bonds provided for in this Article VIII, and shall not be entitled to vote upon, consent to, or participate in any action provided for in this Article VIII.

Section 8.05. Effect of Supplemental Agreement. From and after the time any Supplemental Agreement becomes effective pursuant to this Article VIII, this Agreement shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under this Agreement of the City and all Owners of Bonds Outstanding shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modifications and amendments, and all the terms and conditions of any such Supplemental Agreement shall be deemed to be part of the terms and conditions of this Agreement for any and all purposes.

Section 8.06. Endorsement of Replacement of Bonds Issued after Amendments. The City may determine that Bonds issued and delivered after the effective date of any action taken as provided in this Article VIII shall bear a notation, by endorsement or otherwise, in form approved by the City, as to such action. In that case, upon demand of the Owner of any Bond Outstanding at such effective date and upon presentation of his or her Bond for that purpose at the Principal Office of the Fiscal Agent or at such other office as the Fiscal Agent may select and designate for that purpose, a suitable notation shall be made on such Bond. The City may determine that new Bonds, so modified as in the opinion of the City is necessary to conform to such action, shall be prepared, executed and delivered. In that case, upon demand of the Owner of any Bonds then Outstanding, such new Bonds shall be exchanged at the Principal Office of the Fiscal Agent without cost to any Owner, for like Bonds then Outstanding, upon surrender of such Bonds.

Section 8.07. Amendatory Endorsement of Bonds. The provisions of this Article shall not prevent any Owner from accepting any amendment as to the particular Bonds held by the Owner, provided that due notation thereof is made on such Bonds.

Section 8.08. Consent of Fiscal Agent. The Fiscal Agent shall not be required to enter into or consent to any Supplemental Agreement which, in the sole judgment of the Fiscal Agent, might adversely affect the rights, obligations, powers, privileges, indemnities, and immunities provided to the Fiscal Agent herein. The Fiscal Agent upon request, shall be provided an opinion of counsel that any such Supplemental Agreement complies with the provisions of this Article VIII and the Fiscal Agent may conclusively rely upon such opinion.

Section 8.09. Requirements for Authority-owned Bonds. So long as any Bonds are owned by the Authority, no amendment to this Agreement shall be effective unless it is permitted under Section 5.08 of the Authority Bonds Indenture.

ARTICLE IX

MISCELLANEOUS

Section 9.01. Benefits of Agreement Limited to Parties. Nothing in this Agreement, expressed or implied, is intended to give to any person other than the City, the Fiscal Agent and the Owners, any right, remedy or claim under or by reason of this Agreement. Any covenants, stipulations, promises or agreements in this Agreement contained by and on behalf of the City shall be for the sole and exclusive benefit of the Owners and the Fiscal Agent.

Section 9.02. Successors Deemed Included in All References to Predecessor. Whenever in this

Agreement or any Supplemental Agreement either the City or the Fiscal Agent is named or referred to, such reference shall be deemed to include the successors or assigns thereof, and all the covenants and agreements in this Agreement contained by or on behalf of the City or the Fiscal Agent shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

Section 9.03. Discharge of Agreement. If the City shall pay and discharge the entire indebtedness on all Bonds in any one or more of the following ways:

(a) by well and truly paying or causing to be paid the principal of and interest and any premium on all Bonds, as and when the same become due and payable;

(b) by depositing with the Fiscal Agent, in trust, at or before maturity, an amount of money which, together with the amounts then on deposit in the Redemption Fund and the Reassessment Fund, is fully sufficient to pay all Bonds, including all principal, interest and redemption premiums, if any; or

(c) by irrevocably depositing with the Fiscal Agent or another fiduciary, in trust, cash or noncallable Federal Securities in such amount as the City shall determine, as confirmed by an Independent Financial Consultant, will, together with the interest to accrue thereon and amounts then on deposit in the Redemption Fund and the Reassessment Fund, be fully sufficient to pay and discharge the indebtedness on all Bonds (including all principal, interest and redemption premiums) at or before their respective maturity dates; and if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as in this Agreement provided or provision satisfactory to the Fiscal Agent shall have been made for the giving of such notice, then, at the election of the City, and notwithstanding that any Bonds shall not have been surrendered for payment, the pledge of the Reassessment Revenues and other funds provided for in this Agreement and all other obligations of the City under this Agreement with respect to all Bonds shall cease and terminate, except the obligation of the City to pay or cause to be paid to the Owners of the Bonds not so surrendered and paid all sums due thereon, the obligation of the City to pay all amounts owing to the Fiscal Agent pursuant to Section 7.05 hereof, and the obligations of the City pursuant to the covenants contained in Section 5.08 hereof, and thereafter Reassessment Revenues shall not be payable to the Fiscal Agent. Notice of such election shall be filed with the Fiscal Agent. The satisfaction and discharge of this Agreement shall be without prejudice to the rights of the Fiscal Agent to charge and be reimbursed by the City for the expenses which it shall thereafter incur in connection herewith.

Any funds held by the Fiscal Agent to pay and discharge the indebtedness on all Bonds, upon payment of all fees and expenses of the Fiscal Agent, which are not required for such purpose, shall be paid over to the City.

Section 9.04. Execution of Documents and Proof of Ownership by Owners. Any request, declaration or other instrument which this Agreement may require or permit to be executed by Owners may be in one or more instruments of similar tenor, and shall be executed by Owners in person or by their attorneys appointed in writing.

Except as otherwise herein expressly provided, the fact and date of the execution by any Owner or his or her attorney of such a request, declaration or other instrument, or of a writing appointing such an attorney, may be proved by the certificate of any notary public or other officer authorized to take acknowledgments of deeds to be recorded in the state in which he or she purports to act, that the person signing such request, declaration or other instrument or writing acknowledged to him or her the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before such a notary public or

other officer.

Except as otherwise herein expressly provided, the ownership of registered Bonds and the Series, amount, maturity, number and date of holding the same shall be proved by the Registration Books.

Any request, declaration, consent or other instrument or writing of the Owner of any Bond shall bind all future Owners of such Bond in respect of anything done or suffered to be done by the City or the Fiscal Agent in accordance therewith.

Section 9.05. Waiver of Personal Liability. No member, officer, agent or employee of the City shall be individually or personally liable for the payment of the principal of, or interest or any premium on, the Bonds but nothing herein contained shall relieve any such member, officer, agent or employee from the performance of any official duty provided by law.

Section 9.06. Notices. Any notice, request, complaint, demand or other communication under this Agreement shall be given by first class mail or personal delivery to the party entitled thereto at its address set forth below, or by telecopy or other form of telecommunication, confirmed by telephone at its number set forth below. Notice shall be effective either (a) upon transmission by telecopy or other form of telecommunication, (b) 48 hours after deposit in the United States mail, postage prepaid, or (c) in the case of personal delivery to any person, upon actual receipt.

If to the City:	City of Morgan Hill 17555 Peak Avenue Morgan Hill, California 95037 Attention: City Manager Fax: (408) 779-3117
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If to the Authority:	Morgan Hill Financing Authority 17555 Peak Avenue Morgan Hill, California 95037 Fax: (408) 779-3117
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If to the Fiscal Agent:	The Bank of New York Trust Company, N.A. 700 S. Flower Street, Ste. 500 Los Angeles, CA 90017 Attention: Corporate Trust Fax: (213) 630-6210
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The above parties may designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent.

The Fiscal Agent agrees to accept and act upon facsimile transmission of written instructions or directions pursuant to this Agreement; provided, however, that: (a) subsequent to such facsimile transmission of written instructions, there shall be provided to the Fiscal Agent originally executed instructions and/or directions in a timely manner, (b) such originally executed instructions and/or directions by the City shall be signed by a person as may be designated and authorized to sign for the City and, (c) the City shall provide to the Fiscal Agent an incumbency certificate listing such designated persons and the City shall from time to time provide the Fiscal Agent updated incumbency certificates, as necessary or appropriate, reflecting persons who have been added or deleted from the listing.

Section 9.07. Severability. If any section, paragraph, sentence, clause or phrase of this Agreement shall for any reason be held by a court of competent jurisdiction to be illegal or unenforceable, such holding shall not affect the validity of the remaining portions of this Agreement. The City hereby declares that it would have executed and delivered this Agreement and each and every other section, paragraph, sentence, clause or phrase hereof and authorized the issue of the Bonds pursuant thereto irrespective of the fact that any one or more sections, paragraphs, sentences, clauses or phrases of this Agreement may be held illegal, invalid or unenforceable.

Section 9.08. Unclaimed Moneys. Anything contained herein to the contrary notwithstanding, any moneys held by the Fiscal Agent in trust for the payment and discharge of the principal of, and the interest and any premium on, the Bonds which remains unclaimed for two (2) years after the date when the payment of such principal, interest and premium have become payable, if such moneys were held by the Fiscal Agent at such date, shall be repaid by the Fiscal Agent to the City as its absolute property free from any trust, and the Fiscal Agent shall have no responsibility or liability for such moneys.

Section 9.09. Applicable Law. This Agreement shall be governed by and enforced in accordance with the laws of the State applicable to contracts made and performed in the State of California.

Section 9.10. Conflict with 1915 Act or 1984 Refunding Act. In the event of a conflict between any provision of this Agreement with any provision of the 1915 Act or the 1984 Refunding Act as in effect on the Closing Date, the provision of the 1915 Act or the 1984 Refunding Act, as applicable, shall prevail over the conflicting provision of this Agreement.

Section 9.11. Conclusive Evidence of Regularity. Bonds issued pursuant to this Agreement shall constitute conclusive evidence of the regularity of all proceedings under the 1984 Refunding Act relative to their issuance.

Section 9.12. Payment on Business Day. In any case where the date of the payment of interest or of principal (and premium, if any) of the Bonds or the date fixed for redemption is other than a Business Day, the payment of interest or principal (and premium, if any) need not be made on such date but may be made on the next succeeding day which is a Business Day with the same force and effect as if made on the date required, and no interest shall accrue for the period from and after such date.

Section 9.13. Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the City has caused this Agreement to be executed in its name and attested, and the Fiscal Agent, in acknowledgment of its acceptance of the duties created hereunder, has caused this Agreement to be executed in its name, all as the date first written above.

CITY OF MORGAN HILL

By: _____
City Manager

**THE BANK OF NEW YORK TRUST COMPANY,
N.A., as Fiscal Agent**

By: _____
Authorized Officer

EXHIBIT A

[FORM OF REASSESSMENT 2005A BOND]

UNITED STATES OF AMERICA
STATE OF CALIFORNIA
COUNTY OF SANTA CLARA

REGISTERED

REGISTERED

NO. _____

\$ _____

CITY OF MORGAN HILL
ASSESSMENT DISTRICT NO. 2000-1 (MADRONE BUSINESS PARK)
LIMITED OBLIGATION REFUNDING IMPROVEMENT BONDS, SERIES 2005A

INTEREST RATE

MATURITY DATE
September 2, _____

BOND DATE
_____, 2005

REGISTERED OWNER:

PRINCIPAL AMOUNT:

Under and by virtue of the Refunding Act of 1984 for 1915 Improvement Act Bonds, Division 11.5 of the California Street and Highways Code (the "1984 Refunding Act") the City of Morgan Hill, County of Santa Clara, California (the "City"), will, out of the Redemption Fund for the payment of the Bonds issued upon the unpaid reassessments made for the refunding and reassessment more fully described in proceedings taken pursuant to Resolution No. _____, adopted by the City Council of the City on _____, 2005 (the "Resolution of Intention"), pay to the registered owner hereof, or registered assigns, on the maturity date stated above, the principal sum shown hereon in lawful money of the United States of America and in like manner will pay interest at the rate per annum stated above, payable semiannually on March 2 and September 2 (each an "Interest Payment Date") in each year commencing on September 2, 2005. This Bond bears interest from the Interest Payment Date next preceding its date of authentication and registration, unless this Bond is authenticated and registered (i) on an Interest Payment Date, in which event interest shall be payable from such date of authentication and registration, (ii) prior to an Interest Payment Date and after the close of business on the fifteenth (15th) day of the month immediately preceding such Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or (iii) prior to the close of business on the 15th day of the month immediately preceding the first Interest Payment Date, in which event it shall bear interest from the Bond Date stated above, until payment of such principal sum shall have been discharged; provided, however, that if at the time of authentication of such Bond, interest is in default, interest on that Bond shall be payable from the last Interest Payment Date to which the interest has been paid or made available for payment. Both the principal hereof and redemption premium hereon are payable upon presentation and surrender hereof at the corporate trust office of The Bank of New York Trust Company, N.A., or its successor, as Fiscal Agent (the "Fiscal Agent"), in Los Angeles, California, or such other place as may be designated by the Fiscal Agent and the interest hereon is payable by check mailed, by first-class mail, to

the owner hereof at such owner's address as it appears on the registration books of the Fiscal Agent of the fifteenth (15th) day of the month immediately preceding each Interest Payment Date, or by wire transfer made on the Interest Payment Date upon instructions of any owner of \$1,000,000 or more in aggregate principal amount of Bonds delivered to the Fiscal Agent prior to the fifteenth (15th) day of the month immediately preceding the Interest Payment Date.

This Bond will continue to bear interest after maturity at the rate above stated, provided that it is presented at maturity and payment thereof is refused upon the sole ground that there are not sufficient moneys in the Redemption Fund with which to pay same. If it is not presented at maturity interest hereon will run only until maturity.

This Bond is one of several annual series of bonds of like date, tenor and effect, but differing in amounts, maturities and interest rates, issued by the City of Morgan Hill under the 1984 Refunding Act, Resolution No. _____ of the City Council of the City, adopted on _____, 2005 (the "Resolution of Issuance") and a Fiscal Agent Agreement dated as of _____, 2005 (the "Fiscal Agent Agreement") by and between the City and the Fiscal Agent in the aggregate principal amount of \$_____ for the purpose of providing means for the refunding and reassessment described in the proceedings, and is secured by the moneys in the Redemption Fund and by the unpaid reassessments made for the payment of the refunding and reassessment, and, including principal and interest, is payable exclusively out of the Redemption Fund and certain other funds and accounts as provided in the Fiscal Agent Agreement. **The City will not obligate itself to advance available funds from the City Treasury to cure any deficiency which may occur in the Redemption Fund.**

If this Bond matures on September 2, _____, it is subject to mandatory sinking fund redemption by lot, at a redemption price equal to the principal amount thereof to be redeemed, without premium, on September 2 of each year (commencing September 2, _____) in the aggregate respective principal amounts set forth in the Fiscal Agent Agreement, by giving at least 30 days' notice by registered or certified mail, postage prepaid, or by personal service to the registered owners thereof at the owners' address as they appear on the registration books of the Fiscal Agent.

Subject to the provisions of the Fiscal Agent Agreement, this Bond or any portion of it in the amount of five thousand dollars (\$5,000), or any integral multiple thereof, may be redeemed and paid in advance of maturity upon March 2 or September 2 in any year by giving at least 30 days' notice by registered or certified mail, postage prepaid, or by personal service to the registered owner hereof at the registered owner's address as it appears on the registration books of the Fiscal Agent at the following redemption prices expressed as percentages of the principal amount of the Bonds to be redeemed together with interest accrued to the date of redemption:

<u>Redemption Date</u>	<u>Redemption Price</u>
Prior to March 2, [2010]	103%
March 2, [2010] and September 2, [2010]	
March 2, [2011] and September 2, [2011]	
March 2, [2012] and thereafter	

This Bond is subject to refunding pursuant to the procedure of Division 11 (commencing with Section 9000) or Division 11.5 (commencing with Section 9500) of the Streets and Highways Code of the State of California prior to maturity; provided, that the City agrees in the Fiscal Agent Agreement that it will not refund the Bonds on a current basis before March 2, [2010].

This Bond is transferable by the registered owner hereof, in person or by the owner's attorney duly authorized in writing, at the office of the Fiscal Agent, subject to the terms and conditions provided in the Fiscal Agent Agreement including the payment of certain charges, if any, upon surrender and cancellation of this Bond. Upon transfer, a new registered Bond or Bonds, of any authorized denomination or denominations, of the same maturity and Series, and for the same aggregate principal amount, will be issued to the transferee in exchange therefor.

Bonds not owned by and registered in the name of the Morgan Hill Financing Authority shall be registered only in the name of an individual (including joint owners), a corporation, a partnership or a trust.

Neither the City nor the Fiscal Agent shall be required to exchange or to register the transfer of Bonds during the fifteen days immediately preceding any interest payment date or of any Bonds selected for redemption in advance of maturity.

The City and the Fiscal Agent may treat the owner hereof as the absolute owner for all purposes, and the City and the Fiscal Agent shall not be affected by any notice to the contrary.

This Bond shall not be entitled to any benefit under the 1984 Refunding Act, the Resolution of Issuance or the Fiscal Agent Agreement, or become valid or obligatory for any purpose, until the certificate of authentication and registration hereon endorsed shall have been dated and manually signed by the Fiscal Agent.

IN WITNESS WHEREOF, the City of Morgan Hill has caused the Bond to be signed and attested by the facsimile signatures of the City Treasurer and by the City Clerk, and has caused its corporate seal to be reproduced hereon all the Bond Date above.

CITY OF MORGAN HILL

By _____
Treasurer

Attest:

City Clerk

CERTIFICATE OF AUTHENTICATION AND REGISTRATION

This is one of the Bonds described in the within mentioned Fiscal Agent Agreement which has been authenticated and registered on _____ 20__.

**THE BANK OF NEW YORK TRUST
COMPANY, N.A., as Fiscal Agent**

By: _____
Authorized Signatory

=====

ASSIGNMENT

For value received, the undersigned do(es) hereby sell, assign and transfer unto _____ the within-mentioned Bond and hereby irrevocably constitute(s) and appoint(s) _____ attorney, to transfer the same on the books kept for registration hereof with full power of substitution in the premises.

Dated: _____, 20__

NOTICE: The signature to this assignment must correspond with the name as it appears upon the within Bond in every particular, without alteration or enlargement or any change whatsoever.

EXHIBIT B

[FORM OF REASSESSMENT 2005B BOND]

UNITED STATES OF AMERICA
STATE OF CALIFORNIA
COUNTY OF SANTA CLARA

REGISTERED

REGISTERED

NO. _____

\$ _____

CITY OF MORGAN HILL
ASSESSMENT DISTRICT NO. 2000-1 (MADRONE BUSINESS PARK)
LIMITED OBLIGATION REFUNDING IMPROVEMENT BONDS,
SERIES 2005B (TAXABLE)

INTEREST RATE

MATURITY DATE
September 2, _____

BOND DATE
_____, 2005

REGISTERED OWNER:

PRINCIPAL AMOUNT:

Under and by virtue of the Refunding Act of 1984 for 1915 Improvement Act Bonds, Division 11.5 of the California Street and Highways Code (the "1984 Refunding Act") the City of Morgan Hill, County of Santa Clara, California (the "City"), will, out of the Redemption Fund for the payment of the Bonds issued upon the unpaid reassessments made for the refunding and reassessment more fully described in proceedings taken pursuant to Resolution No. _____, adopted by the City Council of the City on _____, 2005 (the "Resolution of Intention"), pay to the registered owner hereof, or registered assigns, on the maturity date stated above, the principal sum shown hereon in lawful money of the United States of America and in like manner will pay interest at the rate per annum stated above, payable semiannually on March 2 and September 2 (each an "Interest Payment Date") in each year commencing on September 2, 2005. This Bond bears interest from the Interest Payment Date next preceding its date of authentication and registration, unless this Bond is authenticated and registered (i) on an Interest Payment Date, in which event interest shall be payable from such date of authentication and registration, (ii) prior to an Interest Payment Date and after the close of business on the fifteenth (15th) day of the month immediately preceding such Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or (iii) prior to the close of business on the 15th day of the month immediately preceding the first Interest Payment Date, in which event it shall bear interest from the Bond Date stated above, until payment of such principal sum shall have been discharged; provided, however, that if at the time of authentication of such Bond, interest is in default, interest on that Bond shall be payable from the last Interest Payment Date to which the interest has been paid or made available for payment. Both the principal hereof and redemption premium hereon are payable upon presentation and surrender hereof at the corporate trust office of The Bank of New York Trust Company, N.A., or its successor, as Fiscal Agent (the "Fiscal Agent"), in Los Angeles, California, or such other place as may be

designated by the Fiscal Agent and the interest hereon is payable by check mailed, by first-class mail, to the owner hereof at such owner's address as it appears on the registration books of the Fiscal Agent of the fifteenth (15th) day of the month immediately preceding each Interest Payment Date, or by wire transfer made on the Interest Payment Date upon instructions of any owner of \$1,000,000 or more in aggregate principal amount of Bonds delivered to the Fiscal Agent prior to the fifteenth (15th) day of the month immediately preceding the Interest Payment Date.

This Bond will continue to bear interest after maturity at the rate above stated, provided that it is presented at maturity and payment thereof is refused upon the sole ground that there are not sufficient moneys in the Redemption Fund with which to pay same. If it is not presented at maturity interest hereon will run only until maturity.

This Bond is one of several annual series of bonds of like date, tenor and effect, but differing in amounts, maturities and interest rates, issued by the City of Morgan Hill under the 1984 Refunding Act, Resolution No. _____ of the City Council of the City, adopted on _____, 2005 (the "Resolution of Issuance") and a Fiscal Agent Agreement dated as of _____, 2005 (the "Fiscal Agent Agreement") by and between the City and the Fiscal Agent in the aggregate principal amount of \$_____ for the purpose of providing means for the refunding and reassessment described in the proceedings, and is secured by the moneys in the Redemption Fund and by the unpaid reassessments made for the payment of the refunding and reassessment, and, including principal and interest, is payable exclusively out of the Redemption Fund and certain other funds and accounts as provided in the Fiscal Agent Agreement. **The City will not obligate itself to advance available funds from the City Treasury to cure any deficiency which may occur in the Redemption Fund.**

If this Bond matures on September 2, ____, it is subject to mandatory sinking fund redemption by lot, at a redemption price equal to the principal amount thereof to be redeemed, without premium, on September 2 of each year (commencing September 2, ____) in the aggregate respective principal amounts set forth in the Fiscal Agent Agreement, by giving at least 30 days' notice by registered or certified mail, postage prepaid, or by personal service to the registered owners thereof at the owners' address as they appear on the registration books of the Fiscal Agent.

Subject to the provisions of the Fiscal Agent Agreement, this Bond or any portion of it in the amount of five thousand dollars (\$5,000), or any integral multiple thereof, may be redeemed and paid in advance of maturity upon March 2 or September 2 in any year by giving at least 30 days' notice by registered or certified mail, postage prepaid, or by personal service to the registered owner hereof at the registered owner's address as it appears on the registration books of the Fiscal Agent at the following redemption prices expressed as percentages of the principal amount of the Bonds to be redeemed together with interest accrued to the date of redemption:

<u>Redemption Date</u>	<u>Redemption Price</u>
Prior to March 2, [2010]	103%
March 2, [2010] and September 2, [2010]	
March 2, [2011] and September 2, [2011]	
March 2, [2012] and thereafter	

This Bond is subject to refunding pursuant to the procedure of Division 11 (commencing with Section 9000) or Division 11.5 (commencing with Section 9500) of the Streets and Highways Code of the State of California prior to maturity; provided, that the City agrees in the Fiscal Agent Agreement that it will not refund the Bonds on a current basis before March 2, [2010].

This Bond is transferable by the registered owner hereof, in person or by the owner's attorney duly authorized in writing, at the office of the Fiscal Agent, subject to the terms and conditions provided in the Fiscal Agent Agreement including the payment of certain charges, if any, upon surrender and cancellation of this Bond. Upon transfer, a new registered Bond or Bonds, of any authorized denomination or denominations, of the same maturity and Series, and for the same aggregate principal amount, will be issued to the transferee in exchange therefor.

Bonds not owned by and registered in the name of the Morgan Hill Financing Authority shall be registered only in the name of an individual (including joint owners), a corporation, a partnership or a trust.

Neither the City nor the Fiscal Agent shall be required to exchange or to register the transfer of Bonds during the fifteen days immediately preceding any interest payment date or of any Bonds selected for redemption in advance of maturity.

The City and the Fiscal Agent may treat the owner hereof as the absolute owner for all purposes, and the City and the Fiscal Agent shall not be affected by any notice to the contrary.

This Bond shall not be entitled to any benefit under the 1984 Refunding Act, the Resolution of Issuance or the Fiscal Agent Agreement, or become valid or obligatory for any purpose, until the certificate of authentication and registration hereon endorsed shall have been dated and manually signed by the Fiscal Agent.

IN WITNESS WHEREOF, the City of Morgan Hill has caused the Bond to be signed and attested by the facsimile signatures of the City Treasurer and by the City Clerk, and has caused its corporate seal to be reproduced hereon all the Bond Date above.

CITY OF MORGAN HILL

By _____
Treasurer

Attest:

City Clerk

CERTIFICATE OF AUTHENTICATION AND REGISTRATION

This is one of the Bonds described in the within mentioned Fiscal Agent Agreement which has been authenticated and registered on _____ 20__.

**THE BANK OF NEW YORK TRUST
COMPANY, N.A.**, as Fiscal Agent

By: _____
Authorized Signatory

=====

ASSIGNMENT

For value received, the undersigned do(es) hereby sell, assign and transfer unto _____ the within-mentioned Bond and hereby irrevocably constitute(s) and appoint(s) _____ attorney, to transfer the same on the books kept for registration hereof with full power of substitution in the premises.

Dated: _____, 20__

NOTICE: The signature to this assignment must correspond with the name as it appears upon the within Bond in every particular, without alteration or enlargement or any change whatsoever.

ESCROW AGREEMENT

by and between

CITY OF MORGAN HILL

and

U.S. BANK NATIONAL ASSOCIATION,
as Fiscal Agent and Escrow Agent

Dated as of February 1, 2005

Pertaining to the refunding of

City of Morgan Hill
Assessment District No. 2000-1
(Madrone Business Park)
Limited Obligation Improvement Bonds
Series A 2000

City of Morgan Hill
Assessment District No. 2000-1
(Madrone Business Park)
Limited Obligation Improvement Bonds
Series B 2000 (Taxable)

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ESCROW AGREEMENT

This Escrow Agreement (this "Agreement"), is made and entered into as of February 1, 2005, by and between the City of Morgan Hill, a municipal corporation duly formed and existing pursuant to the laws of the State of California (the "City") and U.S. Bank National Association, a national banking association duly organized and existing under the laws of the United States of America, as Fiscal Agent and Escrow Agent (the "Escrow Agent").

WITNESSETH:

WHEREAS, the City has heretofore formed Assessment District No. 2000-1 (Madrone Business Park) pursuant to the Municipal Improvement Act of 1913 as set forth in Division 12 (commencing with Section 10000) of the California Streets and Highway Code; and

WHEREAS, the City has issued its (i) Assessment District No. 2000-1 (Madrone Business Park) Limited Obligation Improvement Bonds Series A 2000, (the "Prior 2000A Bonds"), of which \$8,620,000 in principal amount remain outstanding, and (ii) Assessment District No. 2000-1 (Madrone Business Park) Limited Obligation Improvement Bonds Series B 2000 (Taxable), (the "Prior 2000B Bonds" and together with the Prior 2000A Bonds, the "Prior Bonds"), of which \$1,440,000 in principal amount remain outstanding; and

WHEREAS, the Prior Bonds were issued pursuant to and the terms thereof are set forth in Resolution No. 5381, adopted by the City Council of the City (the "City Council") on May 10, 2000; and

WHEREAS, the City is issuing its Assessment District No. 2000-1 (Madrone Business Park), Limited Obligation Refunding Improvement Bonds, Series 2005A (the "Reassessment 2005A Bonds") and Assessment District No. 2000-1 (Madrone Business Park), Limited Obligation Refunding Improvement Bonds, Series 2005B (Taxable) (the "Reassessment 2005B Bonds," and together with the Reassessment 2005A Bonds, the "Refunding Bonds") to refund the Prior Bonds pursuant to a Fiscal Agent Agreement, dated as of even date herewith (the "2005 Fiscal Agent Agreement"), by and between the City and The Bank of New York Trust Company, N.A., as Fiscal Agent thereunder; and

WHEREAS, proceeds derived from the sale of the Reassessment 2005A Bonds, along with certain other moneys, will be deposited in escrow with the Escrow Agent to pay for refunding of the Prior 2000A Bonds and a portion of the Prior 2000B Bonds; and

WHEREAS, proceeds derived from the sale of the Reassessment 2005B Bonds, along with certain other moneys, will be deposited in escrow with the Escrow Agent to pay for the refunding of the remaining portion of the Prior 2000B Bonds;

WHEREAS, pursuant to Resolution No. _____ of the City Council of the City adopted on _____, 2005 (the "2005 Bond Resolution"), the City will also transfer Assessments (as defined in the 2005 Bond Resolution) received by the City before the issuance date of the Refunding Bonds to the Escrow Agent for application toward the redemption of the Prior Bonds; and

WHEREAS, in order to provide for the proper and timely application of the moneys deposited in said escrow to the payment of the Prior Bonds, it is necessary to enter into this Escrow Agreement;

NOW, THEREFORE, in consideration of the foregoing and of the mutual covenants hereinafter set forth, the parties hereto agree as follows:

SECTION 1. Definitions. As used herein, the following terms shall have the following meanings:

“City” means the City of Morgan Hill, a general law city and municipal corporation duly formed pursuant to the laws of the State of California.

“Code” means the Internal Revenue Code of 1986 as amended, together with regulations promulgated, and official public guidance published, thereunder.

“District” means the City’s Assessment District No. 2000-1 (Madrone Business Park).

“Escrow Agent” means U.S. Bank National Association, and its successors and assigns, in the capacities as the Prior Bonds Fiscal Agent and escrow agent hereunder.

“Escrow Fund” means the “Escrow Fund” established and held by the Fiscal Agent pursuant to Section 3.

“Escrow Securities” means collectively, the 2000A Escrow Securities and the 2000B Escrow Securities.

“Investment Securities” means noncallable direct obligations of the United States of America, or bonds or other obligations which are noncallable and for which the full faith and credit of the United States of America are pledged for the payment of principal and interest, to mature or be withdrawable, as the case may be, not later than the time when needed for the payment or redemption of the Prior Bonds in order to discharge the pledge and lien of Assessment Revenues, as specified and defined in the Prior Bonds Fiscal Agent Agreement.

“Prior Bonds” means, collectively, the Prior 2000A Bonds and the Prior 2000B Bonds.

“Prior Bonds Fiscal Agent” means U.S. Bank National Association (formerly known as U.S. Bank Trust National Association,” as the fiscal agent heretofore appointed by the City for Prior Bonds under the Prior Bonds Fiscal Agent Agreement.

“Prior Bonds Fiscal Agent Agreement” means the Fiscal Agent Agreement, dated as of May 1, 2000, by and between the City and Prior Bonds Fiscal Agent, pursuant to which the Prior Bonds were issued.

“Prior 2000A Bonds” means the City’s remaining outstanding Assessment District No. 2000-1 (Madrone Business Park), Limited Obligation Improvement Bonds, Series A 2000.

“Prior 2000B Bonds” means the City’s remaining outstanding Assessment District No. 2000-1 (Madrone Business Park), Limited Obligation Improvement Bonds, Series B 2000 (Taxable).

“Reassessment 2005A Bonds” means the City’s \$_____ aggregate principal amount Assessment District No. 2000-1 (Madrone Business Park), Limited Obligation Refunding Improvement Bonds, Series 2005A.

“Reassessment 2005B Bonds” means the City’s \$_____ aggregate principal amount Assessment District No. 2000-1 (Madrone Business Park), Limited Obligation Refunding Improvement Bonds, Series 2005B (Taxable).

“Refunding Bonds” means collectively, the Reassessment 2005A Bonds and the Reassessment

2005B Bonds.

“Refunding Requirements” means an amount sufficient to pay all installments of interest and the redemption price (principal plus premium) of the Prior Bonds at their earliest coming call date, as set forth in Schedule A attached hereto.

“2000A Bonds Escrow Account” means the account by that name within the Escrow Fund established and held by the Escrow Agent pursuant to Section 3.

“2000B Bonds Escrow Account” means the account by that name within the Escrow Fund established and held by the Escrow Agent pursuant to Section 3.

“2000A Escrow Securities” means the Investment Securities described in Section I of Schedule C.

“2000B Escrow Securities” means the Investment Securities described in Section II of Schedule C.

“2005 Fiscal Agent Agreement” means the Fiscal Agent Agreement, dated as of even date herewith, by and between the City and The Bank of New York Trust Company, N.A., as fiscal agent thereunder, pursuant to which the Refunding Bonds are to be issued.

“2004-05 Assessments” means the assessment installments paid by the owners of property in the District during fiscal year 2004-05.

SECTION 2. Purpose of Agreement; Acceptance of Duties. The City and the Escrow Agent are entering into this Agreement for the benefit of the holders of the Prior Bonds to provide for the refunding of all of the remaining outstanding Prior Bonds. The Escrow Agent hereby accepts its duties and obligations hereunder and agrees that the irrevocable instructions to the Escrow Agent provided herein are in a form satisfactory to it. The applicable and necessary provisions of the Prior Bonds Fiscal Agent Agreement, including particularly the debt service payment and redemption provisions thereof, are incorporated herein by reference. Reference herein to, or citation herein of, any provisions of the Prior Bonds Fiscal Agent Agreement shall be deemed to incorporate the same as a part hereof in the same manner and with the same effect as if the same were fully set forth herein.

SECTION 3. Establishment of Escrow Fund. There is hereby created and established with the Escrow Agent a special and irrevocable trust fund designated the “Escrow Fund” (the “Escrow Fund”) to be held by the Escrow Agent separate and apart from all other funds of the City or the Escrow Agent and used only for the purposes and in the manner provided in this Agreement. Within the Escrow Fund, there shall be established two separate accounts designated as the “2000A Bonds Escrow Account” and the “2000B Bonds Escrow Account.”

SECTION 4. Deposits to 2000A Bonds Escrow Account. To effect the refunding of the Prior 2000A Bonds, the City shall cause to be deposited with the Escrow Agent, to be deposited in the 2000A Bonds Escrow Account and held in irrevocable trust by the Escrow Agent and to be applied solely as provided in this Escrow Agreement: (i) \$ _____ representing a portion of the proceeds of the Reassessment 2005A Bonds, (ii) \$ _____ of excess moneys from the funds and accounts under the Prior Bonds Fiscal Agent Agreement relating to the Prior 2000A Bonds, and (iii) \$ _____ representing a portion of the 2004-05 Assessments received by the City before the issuance date of the Refunding Bonds, all as set forth in Schedule B hereto.

SECTION 5. Deposits to 2000B Bonds Escrow Account. To effect the refunding of the Prior 2000B Bonds, the City shall cause to be deposited with the Escrow Agent, to be deposited in the 2000B Bonds Escrow Account and held in irrevocable trust by the Escrow Agent and to be applied solely as provided in this Escrow Agreement: (i) \$_____, representing a portion of the proceeds of the Reassessment 2005A Bonds, (ii) _____ representing a portion of the proceeds of the Reassessment 2005B Bonds, (iii) \$_____ of excess moneys from the funds and accounts under the Prior Bond Fiscal Agent Agreement relating to the Prior 2000B Bonds, and (iv) \$_____ representing the remaining portion of the 2004-05 Assessments received by the City before the issuance date of the Refunding Bonds, all as set forth in Schedule B hereto.

SECTION 6. Investment of Money in Escrow Fund. The Escrow Agent acknowledges receipt of the moneys described in Section 4 agrees immediately to invest \$_____ of such moneys in the 2000A Escrow Securities, to deposit such 2000A Escrow Securities in the 2000A Escrow Account and to deposit the remaining \$_____ in the 2000A Escrow Account to hold uninvested.

The Escrow Agent acknowledges receipt of the moneys described in Section 5 agrees immediately to invest \$_____ of such moneys in the 2000B Escrow Securities, to deposit such 2000B Escrow Securities in the 2000B Escrow Account and to deposit the remaining \$_____ in the 2000B Escrow Account to hold uninvested.

The Escrow Agent is hereby authorized and empowered to deposit uninvested monies held hereunder from time to time in demand deposit accounts, without payment for interest thereon as provided hereunder, established at commercial banks that are corporate affiliates of the Escrow Agent.

Notwithstanding the foregoing or any other provision of this Agreement to the contrary, at the written request of the City and upon compliance with the conditions hereinafter set forth, the Fiscal Agent shall have the power to sell, transfer, request the redemption of or otherwise dispose of some or all of the Escrow Securities in the accounts of Escrow Fund and to substitute Investment Securities. The foregoing may be effected only if: (a) the substitution of Investment Securities for the substituted Escrow Securities occurs simultaneously; (b) the amounts of and dates on which the anticipated transfers from the accounts of the Escrow Fund to pay the principal of, premium and interest on the Prior Bonds will not be diminished or postponed thereby, as shown in the certification (described below) of an independent certified public accountant; (c) the Trustee shall receive the unqualified opinion of nationally recognized bond counsel to the effect that (i) such disposition and substitution would not cause any of the Prior 2000A Bonds or the Reassessment 2005A Bonds to be an "arbitrage bond" within the meaning of Section 148 of the Code and the regulations thereunder in effect on the date of such disposition and substitution and applicable to obligations issued on the respective issue dates of the Prior 2000A Bonds or the Reassessment 2005A Bonds, such disposition or substitution would not be inconsistent with the City's tax covenants contained in the Prior Bonds Fiscal Agent Agreement and the 2005 Fiscal Agent Agreement and that the conditions of this Section as to the disposition and substitution have been satisfied and (ii) the City has the right and power to effect such disposition and substitution; and (d) the Escrow Agent shall receive from an independent certified public accountant a certification that, immediately after such transaction, the principal of and interest on the Investment Securities in the accounts of the Escrow Fund will, together with other moneys available for such purpose, be sufficient to pay the Refunding Requirements. Any cash received from the disposition and substitution of Escrow Securities pursuant to this Section to the extent that, as shown in such certification, such cash will not be required, in accordance with the Prior Bonds Fiscal Agent Agreement and this Agreement, at any time for the payment when due as provided in Section 7, shall be transferred to the City.

SECTION 7. Reinvestment; Payment of Refunding Requirements. As the principal of the Escrow Securities shall mature and be paid, and the investment income and earnings thereon are paid, the

Escrow Agent shall reinvest such moneys in Investment Securities in accordance with the written instructions of the City. No later than the applicable redemption date set forth in Schedule A, the Escrow Agent shall transfer from the 2000A Bond Escrow Account to pay the Refunding Requirements for the Prior 2000A Bonds. Such amounts shall be applied to the payment of the Refunding Requirements for the equal and ratable benefit of the holders of the Prior 2000A Bonds. No later than the applicable redemption date set forth in Schedule A, the Escrow Agent shall transfer from the 2000B Bond Escrow Account to pay the Refunding Requirements for the Prior 2000B Bonds. Such amounts shall be applied to the payment of the Refunding Requirements for the equal and ratable benefit of the holders of the Prior 2000B Bonds.

SECTION 8. Verification. The City has caused schedules to be prepared relating to the sufficiency of the anticipated receipts from the Escrow Securities to pay the Refunding Requirements. The City herewith furnishes the Escrow Agent with the report of _____, verifying the mathematical accuracy of the computations contained in such schedules.

SECTION 9. Compliance with Prior Bonds Fiscal Agent Agreement. The City hereby directs and the Escrow Agent hereby agrees that the Escrow Agent will take all the actions required to be taken by it under the Prior Bonds Fiscal Agent Agreement, including the timely transfer of moneys to pay for the principal of, premium and interest on the Prior Bonds in order to effectuate this Agreement. The liability of the Escrow Agent for the payment of the Refunding Requirements, pursuant to this Agreement shall be limited to the application of the moneys and Escrow Securities in the Escrow Fund (including interest earnings thereon, if any), available for purposes of and in accordance with this Agreement.

SECTION 10. Tax Covenant. Notwithstanding any other provision of this Agreement, the City hereby covenants that no part of the proceeds of the Reassessment 2005A Bonds or of the moneys or funds held by the Escrow Agent hereunder shall be used, and that the City shall not direct the Escrow Agent to use any of such moneys or funds at any time, directly or indirectly, in a manner that would cause any of the Reassessment 2005A Bonds to be an "arbitrage bond" under Section 148 of the Code, as the same shall be in effect at the time of such use and applicable to obligations issued on the date of issuance of such Reassessment 2005A Bonds. Neither of the City nor the Escrow Agent shall, cause Escrow Securities and other moneys held in the Escrow Fund (and accounts therein) to be transferred or disposed, except as set forth in this Agreement; provided that the Escrow Agent may effectuate the transfer of such securities and moneys to a successor escrow agent in accordance with the provisions of Section 16 hereof relating to the transfer of rights and property to successor escrow agents.

SECTION 11. Notices. (a) The City hereby instructs the Escrow Agent to provide as soon as practicable (but no later than 10 business days after the deposits pursuant to Sections 4, 5 and 6 have been made), the following: (i) a notice, substantially in form the form set forth in Exhibit A, to the registered owners of the Prior 2000A Bonds and (ii) a notice, substantially in form the form set forth in Exhibit B, to the registered owners of the Prior 2000B Bonds.

(b) The City hereby further instructs the Escrow Agent to provide notices required under Section 2.03 of the Prior Bonds Fiscal Agent Agreement, at least 30 days prior to the redemption date of the Prior Bonds set forth in Schedule A. Such notices shall be substantially in the forms set forth in Exhibits C and D attached hereto.

SECTION 12. Defeasance of Prior Bonds. By entering into this Agreement, the City is electing to defease all of the remaining outstanding Prior Bonds, notwithstanding that such Prior Bonds shall not have been surrendered for payment. Concurrently with the initial deposit of the moneys set forth in Sections 4 and 5 hereof, the Prior Bonds shall no longer be deemed outstanding and all obligations of the City under the Prior Bonds Fiscal Agent Agreement with respect to the Prior Bonds shall terminate,

except the obligation of the City to pay or cause to be paid to the registered owners of the Prior Bonds the principal of, premium and interest on the Prior Bonds on the redemption date set forth in Schedule A.

SECTION 13. Nature of Lien. The trusts hereby created shall be irrevocable. The holders of the Prior 2000A Bonds shall have an express lien on all moneys in the 2000A Bonds Escrow Account, including the interest earnings thereon, until paid out, used and applied in accordance with this Agreement. The holders of the Prior 2000B Bonds shall have an express lien on all moneys in the 2000B Bonds Escrow Account, including the interest earnings thereon, until paid out, used and applied in accordance with this Agreement.

SECTION 14. Amendments. This Agreement is made pursuant to and in furtherance of the Prior Bond Fiscal Agent Agreement and the 2005 Fiscal Agent Agreement and for the benefit of the City and the holders from time to time of the Prior Bonds and it shall not be repealed, revoked, altered, amended or supplemented without the written consent of all such holders and the written consent of the Escrow Agent and the City; provided, however, that the City and the Escrow Agent may, without the consent of, or notice to, such holders, enter into such agreements supplemental to this Agreement as shall not adversely affect the rights of such holders and as shall not be inconsistent with the terms and provisions of this Agreement, for any one or more of the following purposes:

- (a) to cure any ambiguity or formal defect or omission in this Agreement;
- (b) to grant to, or confer upon, the Escrow Agent for the benefit of the holders of the Prior Bonds, any additional rights, remedies, powers or authority that may lawfully be granted to, or conferred upon, such holders or the Escrow Agent;
- (c) to transfer to the Escrow Agent and make subject to this Agreement additional funds, securities or properties;
- (d) to conform this Agreement to the provisions of any law or regulations governing the exempt status of the Prior 2000A Bonds and the Reassessment 2005A Bonds; and
- (e) to make any other change that does not materially adversely affect the rights of the unpaid Prior Bonds.

The Escrow Agent shall be entitled to rely exclusively upon an unqualified opinion of nationally recognized bond counsel with respect to compliance with this Section, including the extent, if any, to which any change, modification or addition affects the rights of the holders of the Prior Bonds, or that any instrument executed hereunder complies with the conditions and provisions of this Section.

SECTION 15. Compensation of Escrow Agent. In consideration of the services rendered by the Fiscal Agent under this Agreement, the City agrees to and shall pay to the Escrow Agent its proper fees and expenses in accordance with the letter agreement therefor reached by the Escrow Agent and the City, including all reasonable expenses, charges, counsel fees and other disbursements incurred by the Escrow Agent or by its attorneys, agents and employees in and about the performance of their powers and duties hereunder, from any moneys of the City lawfully available therefor and the Escrow Agent shall have no lien whatsoever upon any of the moneys or securities in the Escrow Fund for the payment of such proper fees and expenses.

SECTION 16. Resignation or Removal of Escrow Agent; Appointment of Successor. The Escrow Agent at the time acting hereunder may at any time resign and be discharged from the trusts

hereby created by giving not less than 30 days' written notice to the City, but no such resignation shall take effect unless a successor Escrow Agent shall have been appointed by the holders of the Prior Bonds or by the City as hereinafter provided and such successor Escrow Agent shall have accepted such appointment, in which event such resignation shall take effect immediately upon the appointment and acceptance of a successor Escrow Agent.

The Escrow Agent may be removed at any time by an instrument or concurrent instruments in writing, delivered to the Escrow Agent and the City and signed by the holders of a majority in principal amount of the Prior Bonds. The Escrow Agent may also be removed at any time by the City with prior written notice.

In the event the Escrow Agent shall resign or be removed, or be dissolved, or shall be in the course of dissolution or liquidation, or otherwise become incapable of acting hereunder, or in case the Escrow Agent shall be taken under the control of any public officer or officers, or of a receiver appointed by a court, a successor Escrow Agent may be appointed by the holders of a majority in principal amount of the Prior Bonds, by an instrument or concurrent instruments in writing, signed by such holders, or by their attorneys in fact, duly authorized in writing; provided, nevertheless, that in any such event, the City shall appoint a temporary Escrow Agent to fill such vacancy until a successor Escrow Agent shall be appointed by the holders of a majority in principal amount of the Prior Bonds, and any such temporary Escrow Agent so appointed by the City shall immediately and without further act be superseded by the Escrow Agent so appointed by such holders.

In the event that no appointment of a successor Escrow Agent or a temporary successor Escrow Agent shall have been made by such holders or the City pursuant to the foregoing provisions of this Section within 30 days after written notice of the removal or resignation of the Escrow Agent has been given to the City, the holder of any of the Prior Bonds or any retiring Escrow Agent may apply to any court of competent jurisdiction for the appointment of a successor Escrow Agent, and such court may thereupon, after such notice, if any, as it shall deem proper, appoint a successor Escrow Agent.

No successor Escrow Agent shall be appointed unless such successor Escrow Agent shall be a corporation with trust powers organized under the banking laws of the United States or any State, and shall have at the time of appointment capital and surplus of not less than \$75,000,000.

Every successor Escrow Agent appointed hereunder shall execute, acknowledge and deliver to its predecessor and to the City, an instrument in writing accepting such appointment hereunder and thereupon such successor Escrow Agent without any further act, deed or conveyance, shall become fully vested with all the rights, immunities, powers, trusts, duties and obligations of its predecessor; but such predecessor shall, nevertheless, on the written request of such successor Escrow Agent, the City execute and deliver an instrument transferring to such successor Escrow Agent all the estates, properties, rights, powers and trusts of such predecessor hereunder; and every predecessor Escrow Agent shall deliver all securities and moneys held by it to its successor. Should any transfer, assignment or instrument in writing from the City be required by any successor Escrow Agent for more fully and certainly vesting in such successor Escrow Agent the estates, rights, powers and duties hereby vested or intended to be vested in the predecessor Escrow Agent, any such transfer, assignment and instrument in writing shall, on request, be executed, acknowledged and delivered by the City.

Any corporation into which the Escrow Agent, or any successor to it in the trusts created by this Agreement, may be merged or converted or with which it or any successor to it may be consolidated, or any corporation resulting from any merger, conversion, consolidation or tax-free reorganization to which the Escrow Agent or any successor to it shall be a party, shall, if it meets the qualifications set forth in the fifth paragraph of this Section and if it is otherwise satisfactory to the City, be the successor Escrow

Agent under this Agreement without the execution or filing of any paper or any other act on the part of any of the parties hereto, anything herein to the contrary notwithstanding.

SECTION 17. Limitation of Powers and Duties. The Escrow Agent shall have no power or duty to invest any funds held under this Agreement except as provided in Sections 6 and 7. The Escrow Agent shall have no power or duty to transfer or otherwise dispose of the moneys held hereunder except as provided in this Agreement.

SECTION 18. Indemnification. To the extent permitted by law, the City hereby assumes liability for, and hereby agrees (whether or not any of the transactions contemplated hereby are consummated) to indemnify, protect, save and keep harmless the Escrow Agent and its respective successors, assigns, agents, employees and servants, from and against any and all liabilities, obligations, losses, damages, penalties, claims, actions, suits, costs, expenses and disbursements (including reasonable legal fees and disbursements) of whatsoever kind and nature which may be imposed on, incurred by, or asserted against, the Escrow Agent at any time (whether or not also indemnified against the same by the City or any other person under any other agreement or instrument, but without double indemnity) in any way relating to or arising out of the execution, delivery and performance of this Agreement, the establishment hereunder of the Escrow Fund, the acceptance of the funds and securities deposited therein, the purchase of any securities to be purchased pursuant thereto, the retention of such securities or the proceeds thereof and any payment, transfer or other application of moneys or securities by the Escrow Agent in accordance with the provisions of this Agreement; provided, however, that the City shall not be required to indemnify the Escrow Agent against the Escrow Agent's own negligent or intentional act or omission or the negligent or intentional act or omission of the Escrow Agent's employees or the material breach by the Escrow Agent of the terms of this Agreement. In no event shall the City or the Escrow Agent be liable to any person by reason of the transactions contemplated hereby other than to each other as set forth in this Section. The indemnities contained in this Section shall survive the termination of this Agreement.

SECTION 19. Limitation of Liability. The Escrow Agent and its respective successors, assigns, agents and servants shall not be held to any personal liability whatsoever, in tort, contract, or otherwise, in connection with the execution and delivery of this Agreement, the establishment of the Escrow Fund, the acceptance of the moneys or securities deposited therein, the purchase of the securities to be purchased pursuant hereto, the retention of such securities or proceeds thereof, the sufficiency of the securities or any uninvested moneys held hereunder to accomplish the redemption of the Prior Bonds, or any payment, transfer or other application of moneys by the Escrow Agent in accordance with the provisions of this Agreement or by reason of any non-negligent act, non-negligent omission or non-negligent error of the Escrow Agent made in good faith in the conduct of its duties. The recitals of fact contained in the "Whereas" clauses herein shall be taken as the statements of the City and the Escrow Agent assumes no responsibility for the correctness thereof. The Escrow Agent makes no representation as to the sufficiency of the securities to be purchased pursuant hereto and any uninvested moneys to accomplish the redemption of the Prior Bonds pursuant to the Prior Bonds Escrow Agent Agreement or to the validity of this Agreement as to the City and, except as otherwise provided herein, the Escrow Agent shall incur no liability in respect thereof. The Escrow Agent shall not be liable in connection with the performance of its duties under this Agreement except for its own negligence or willful misconduct and the duties and obligations of the Escrow Agent shall be determined by the express provisions of this Agreement. The Escrow Agent may consult with counsel, who may or may not be counsel to the City, and in reliance upon the written opinion of such counsel shall have full and complete authorization and protection in respect of any action taken, suffered or omitted by it in good faith in accordance therewith. Whenever the Escrow Agent shall deem it necessary or desirable that a matter be proved or established prior to taking, suffering, or omitting any action under this Agreement, such matter (except the matters set forth herein as specifically requiring a certificate of a nationally recognized firm of independent certified

public accountants or an opinion of nationally recognized bond counsel) may be deemed to be conclusively established by a written certification of the City. Whenever the Escrow Agent shall deem it necessary or desirable that a matter specifically requiring a certificate of a nationally recognized firm of independent certified public accountants or an opinion of nationally recognized bond counsel be proved or established prior to taking, suffering, or omitting any such action, such matter may be established only by such a certificate or such an opinion.

SECTION 20. Termination. This Agreement shall terminate when moneys have been withdrawn from the Escrow Fund (or accounts therein) in sufficient amounts to satisfy all of the Refunding Requirements and pay all Prior Bonds in accordance with Section 6 of this Agreement. Upon such termination, all moneys remaining in the Escrow Fund (and accounts therein), after payment of amounts due to the Escrow Agent, shall be released to the City.

SECTION 21. Governing Law. This Agreement shall be governed by the laws of the State of California.

SECTION 22. Severability. If any one or more of the covenants or agreements provided in this Agreement on the part of the City or the Escrow Agent to be performed should be determined by a court of competent jurisdiction to be contrary to law, such covenant or agreement shall be deemed and construed to be severable from the remaining covenants and agreements herein contained and shall in no way affect the validity of the remaining provisions of this Agreement.

SECTION 23. Agreement Binding on Successors. All the covenants, promises and agreements in this Agreement contained by or on behalf of the City or the Escrow Agent shall bind and inure to the benefit of their respective successors and assigns, whether so expressed or not.

SECTION 24. Counterparts. This Agreement may be executed in several counterparts, all of which shall be regarded as one original and shall constitute and be but one and the same instrument.

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IN WITNESS WHEREOF, the parties hereto have each caused this Agreement to be executed by their duly authorized signatories and appointed or elected officials as of the date first above written.

CITY OF MORGAN HILL

By _____
City Manager

U. S. BANK NATIONAL ASSOCIATION,
as Escrow Agent

By _____
Authorized Officer

SCHEDULE A

REFUNDING REQUIREMENTS

Prior 2000A Bonds

<u>Payment/ Redemption Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Redemption Premium</u>	<u>Refunding Requirement</u>
9/2/2005	\$ *	\$	\$	\$

* Consists of the following Prior 2000A Bonds to be paid or optionally redeemed on September 2, 2005:

<u>Maturity Date (September 2)</u>	<u>Principal</u>	<u>Interest Rate</u>	<u>Redemption Price</u>
2005	\$210,000	5.650%	100% (maturity)
2006	\$220,000	5.750	102
2007	\$235,000	5.800	102
2008	\$245,000	5.900	102
2009	\$255,000	6.000	102
2010	\$275,000	6.100	102
2011	\$290,000	6.200	102
2012	\$310,000	6.300	102
2013	\$330,000	6.400	102
2014	\$350,000	6.500	102
2025	<u>\$5,900,000</u>	7.000	102
	<u>\$8,620,000</u>		

Prior 2000B Bonds

<u>Redemption Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Redemption Premium</u>	<u>Refunding Requirement</u>
9/2/2005	\$ **	\$	\$	\$

** Consists of the following Prior 2000B Bonds to be paid or optionally redeemed on September 2, 2005:

<u>Maturity Date (September 2)</u>	<u>Principal</u>	<u>Interest Rate</u>	<u>Redemption Price</u>
2012	\$270,000	9.400%	102%
2020	560,000	9.650	102
2025	<u>610,000</u>	9.800	102
	<u>\$1,440,000</u>		

SCHEDULE B

SCHEDULE OF DEPOSITS **PURSUANT TO SECTIONS 4 AND 5 OF THE ESCROW AGREEMENT**

Deposits on _____, 2005:

Prior 2000A Bond Escrow Account:

Reassessment 2005A Bond Proceeds	\$
Transfer from Prior 2000A Reserve Fund	
Transfer from Prior 2000B Redemption Fund	
2004-05 Assessments	_____
Total	<u>\$</u>

Prior 2000B Bond Escrow Account:

Reassessment 2005A Bond Proceeds	\$
Reassessment 2005B Bond Proceeds	
Transfer from Prior 2000B Reserve Fund	
Transfer from Prior 2000B Redemption Fund	
2004-05 Assessments	_____
Total	<u>\$</u>

SCHEDULE C

ESCROW SECURITIES

EXHIBIT A

FORM OF NOTICE OF DEFEASANCE FOR PRIOR 2000A BONDS

NOTICE OF DEFEASANCE

CITY OF MORGAN HILL, CALIFORNIA
ASSESSMENT DISTRICT NO. 2000-1 (MADRONE BUSINESS PARK)
LIMITED OBLIGATION IMPROVEMENT BONDS SERIES A 2000

NOTICE IS HEREBY GIVEN to the owners of the above-captioned bonds (the “Bonds”), that pursuant to an Escrow Agreement, dated as of February 1, 2005, by and between the City of Morgan Hill (the “City”) and U. S. Bank National Association (the “Escrow Agent”), the City has caused to be irrevocably deposited into an escrow account (the “Escrow Account”) to be held by the Escrow Agent, cash and certain securities guaranteed by the full faith and credit of the United States of America (the “Federal Securities”), to (i) pay the regularly scheduled principal and interest due on all Bonds maturing on September 2, 2005, and (ii) pay, on September 2, 2005 (*i.e.*, the redemption date) the redemption price (being 102 percent of the principal amount), plus accrued interest, on all Bonds maturing on or after September 2, 2006. The CUSIP numbers, maturity dates and the principal amount of the defeased Bonds are listed below:

CUSIP	Maturity Date	Principal Amount	CUSIP	Maturity Date	Principal Amount
617398 HE 5 (1)	9/2/2005	\$210,000	617398 HF 2	9/2/2006	\$220,000
617398 HG 0	9/2/2007	\$235,000	617398 HH 8	9/2/2008	\$245,000
617398 HJ 4	9/2/2009	\$255,000	617398 HK 1	9/2/2010	\$275,000
617398 HL 9	9/1/2011	\$290,000	617398 HM 7	9/2/2012	\$310,000
617398 HN 5	9/2/2013	\$330,000	617398 HP 0	9/2/2014	\$350,000
617398 JA 1	9/2/2025	\$5,900,000			

As the result of the aforementioned deposit in the Escrow Account, the Bonds are deemed to have been paid and defeased under the Fiscal Agent Agreement, dated as of May 1, 2000 (the “Fiscal Agent Agreement”) by and between the City and U. S. Bank National Association, as Fiscal Agent. The lien created by the Fiscal Agent Agreement with respect to the Bonds has been discharged. Obligations of the City to the owners of the defeased Bonds shall hereafter be limited to the application of moneys in the Escrow Account for the payment of the principal of, premium and interest on the Bonds as the same become due and payable on September 2, 2005, as described above.

Neither the City nor the Fiscal Agent shall be held responsible for the selection or use of the CUSIP number, nor is any representation made as to its correctness as shown in this Notice of Defeasance. It is included solely for convenience of the owners of the Bonds.

Any questions relating to this defeasance may be directed to 800-934-6802.

By U. S. Bank National Association,
as Fiscal Agent and Escrow Agent

DATE: _____, 2005

-
- (1) All Bonds maturing on September 2, 2005 will be paid in the normal manner at a price of 100 percent of principal plus accrued interest. All other maturities will be redeemed on September 2, 2005, at a price of 102 percent of principal, plus accrued interest.

EXHIBIT B

FORM OF NOTICE OF DEFEASANCE FOR PRIOR 2000B BONDS

NOTICE OF DEFEASANCE

CITY OF MORGAN HILL, CALIFORNIA
ASSESSMENT DISTRICT NO. 2000-1 (MADRONE BUSINESS PARK)
LIMITED OBLIGATION IMPROVEMENT BONDS SERIES B 2000 (TAXABLE)

NOTICE IS HEREBY GIVEN to the owners of the above-captioned bonds (the “Bonds”), that pursuant to an Escrow Agreement, dated as of February 1, 2005, by and between the City of Morgan Hill (the “City”) and U. S. Bank National Association (the “Escrow Agent”), the City has caused to be irrevocably deposited into an escrow account (the “Escrow Account”) to be held by the Escrow Agent, cash and certain securities guaranteed by the full faith and credit of the United States of America (the “Federal Securities”), to pay, on September 2, 2005 (*i.e.*, the redemption date) the redemption price (being 102 percent of the principal amount), plus accrued interest, on the defeased Bonds listed below:

CUSIP	Maturity Date	Principal Amount
617398 JN 35	9/2/2012	\$270,000
617398 JW 3	9/2/2020	\$560,000
617398 KB 7	9/2/2025	\$610,000

As the result of the aforementioned deposit in the Escrow Account, the Bonds are deemed to have been paid and defeased under the Fiscal Agent Agreement, dated as of May 1, 2000 (the “Fiscal Agent Agreement”) by and between the City and U. S. Bank National Association, as Fiscal Agent. The lien created by the Fiscal Agent Agreement with respect to the Bonds has been discharged. Obligations of the City to the owners of the defeased Bonds shall hereafter be limited to the application of moneys in the Escrow Account for the payment of the principal of, premium and interest on the Bonds as the same become due and payable on September 2, 2005, as described above.

Neither the City nor the Fiscal Agent shall be held responsible for the selection or use of the CUSIP number, nor is any representation made as to its correctness as shown in this Notice of Defeasance. It is included solely for convenience of the owners of the Bonds.

Any questions relating to this defeasance may be directed to 800-934-6802.

By U. S. Bank National Association,
as Fiscal Agent and Escrow Agent

DATE: _____, 2005

EXHIBIT C

FORM OF NOTICE OF REDEMPTION FOR PRIOR 2000A BONDS

NOTICE OF REDEMPTION

CITY OF MORGAN HILL, CALIFORNIA
ASSESSMENT DISTRICT NO. 2000-1 (MADRONE BUSINESS PARK)
LIMITED OBLIGATION IMPROVEMENT BONDS SERIES A 2000

CUSIP	Maturity Date	Principal Amount	CUSIP	Maturity Date	Principal Amount
617398 HG 0	9/2/2007	\$235,000	617398 HF 2	9/2/2006	\$220,000
617398 HJ 4	9/2/2009	\$255,000	617398 HH 8	9/2/2008	\$245,000
617398 HL 9	9/1/2011	\$290,000	617398 HK 1	9/2/2010	\$275,000
617398 HN 5	9/2/2013	\$330,000	617398 HM 7	9/2/2012	\$310,000
617398 JA 1	9/2/2025	\$5,900,000	617398 HP 0	9/2/2014	\$350,000

NOTICE IS HEREBY GIVEN, that the City of Morgan Hill has called for redemption on September 2, 2005 (the "Redemption Date") all of its Assessment District No. 2000-1 (Madrone Business Park) Limited Obligation Improvement Bonds Series A 2000 (the "Bonds") maturing on or after September 2, 2006 in the aggregate principal amount of \$8,410,000, at a redemption price equal to 102% of the principal thereof, together with accrued interest to the Redemption Date.

Payment of the Redemption Price on the Bonds called for redemption will be paid only upon presentation and surrender thereof in the following manner:

If by Mail:	If by Hand or Overnight Mail:
U. S. Bank National Association Corporate Trust Services P. O. Box 64111 St. Paul, MN 55164-0111	U. S. Bank National Association Bond Drop Window 60 Livingston Avenue St. Paul, MN 55107

Bondholders presenting their Bonds in person for same day payment **must** surrender their Bond(s) by 1:00 PM on the Redemption Date and a check will be available for pickup after 2:00PM. Checks not picked up by 4:30PM will be mailed out to the bondholder via first class mail. If payment of the Redemption Price is to be made to the registered owner of the Bond, you are not required to endorse the Bond to collect the Redemption Price.

Interest on the principal amount designated to be redeemed shall cease to accrue on and after the Redemption Date.

IMPORTANT NOTICE

Under the Jobs and Growth Tax Relief Reconciliation Act of 2003 (the "Act"), Federal Backup

Withholding Tax will be withheld at the applicable Backup Withholding Rate in effect at the time the payment is made if the bondholder's tax identification number is not properly certified.

**Neither the City nor the Fiscal Agent shall be held responsible for the selection or use of the CUSIP number, nor is any representation made as to its correctness as shown in this Notice of Redemption. It is included solely for convenience of the Bondholders.*

By U. S. Bank National Association
as Fiscal Agent

Date: _____, 2005

EXHIBIT D

FORM OF NOTICE OF REDEMPTION FOR PRIOR 2000B BONDS

NOTICE OF REDEMPTION

CITY OF MORGAN HILL, CALIFORNIA
ASSESSMENT DISTRICT NO. 2000-1 (MADRONE BUSINESS PARK)
LIMITED OBLIGATION IMPROVEMENT BONDS SERIES B 2000 (TAXABLE)

CUSIP	Maturity Date	Principal Amount
617398 JN 35	9/2/2012	\$270,000
617398 JW 3	9/2/2020	\$560,000
617398 KB 7	9/2/2025	\$610,000

NOTICE IS HEREBY GIVEN, that the City of Morgan Hill has called for redemption on September 2, 2005 (the "Redemption Date") all of its Assessment District No. 2000-1 (Madrone Business Park) Limited Obligation Improvement Bonds Series B 2000 (Taxable) (the "Bonds") maturing on or after September 2, 2006 in the aggregate principal amount of \$1,440,000, at a redemption price equal to 102% of the principal thereof, together with accrued interest to the Redemption Date.

Payment of the Redemption Price on the Bonds called for redemption will be paid only upon presentation and surrender thereof in the following manner:

If by Mail:	If by Hand or Overnight Mail:
U. S. Bank National Association Corporate Trust Services P. O. Box 64111 St. Paul, MN 55164-0111	U. S. Bank National Association Bond Drop Window 60 Livingston Avenue St. Paul, MN 55107

Bondholders presenting their Bonds in person for same day payment **must** surrender their Bond(s) by 1:00 PM on the Redemption Date and a check will be available for pickup after 2:00PM. Checks not picked up by 4:30PM will be mailed out to the bondholder via first class mail. If payment of the Redemption Price is to be made to the registered owner of the Bond, you are not required to endorse the Bond to collect the Redemption Price.

Interest on the principal amount designated to be redeemed shall cease to accrue on and after the Redemption Date.

IMPORTANT NOTICE

Under the Jobs and Growth Tax Relief Reconciliation Act of 2003 (the "Act"), Federal Backup Withholding Tax will be withheld at the applicable Backup Withholding Rate in effect at the time the payment is made if the bondholder's tax identification number is not properly certified.

Exhibit D

**Neither the City nor the Fiscal Agent shall be held responsible for the selection or use of the CUSIP number, nor is any representation made as to its correctness as shown in this Notice of Redemption. It is included solely for convenience of the Bondholders.*

By U. S. Bank National Association
as Fiscal Agent

Date: _____, 2005

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement"), dated February 1, 2005, is executed and delivered, by the **City of Morgan Hill** (the "City"), **NBS Government Finance Group**, as Dissemination Agent, **The Bank of New York Trust Company, N.A.**, as Trustee under the Indenture (hereinafter defined), and **Toeniskoetter & Breeding, Inc. Development**, a California corporation (together with its successors and permitted assigns, "TBI Development"), in connection with the issuance by the Morgan Hill Financing Authority (the "Authority") of its \$_____ Reassessment Revenue Bonds, Series 2004A (Madrone Business Park) (the "Series 2005A Bonds") and \$_____ Reassessment Revenue Bonds, Series 2005B (Madrone Business Park) (Taxable) (the "Series 2005B Bonds," and together with the Series 2005A Bonds, the "Bonds").

The Bonds are being issued pursuant to an Indenture of Trust, dated as of February 1, 2005 (the "Indenture"), by and between the Authority and the Trustee. Proceeds of the Series 2005A Bonds will be used by the Authority to purchase the City's \$_____ Assessment District No. 2000-1 (Madrone Business Park) Limited Obligation Refunding Improvement Bonds, Series 2005A (the "Reassessment 2005A Bonds"). Proceeds of the Series 2005B Bonds will be used by the Authority to purchase the City's \$_____ Assessment District No. 2000-1 (Madrone Business Park) Limited Obligation Refunding Improvement Bonds, Series 2005B (Taxable) (the "Reassessment 2005B Bonds," and together with the Reassessment 2005A Bonds, the "Reassessment Bonds"). The Bonds will be payable solely from Revenues (as defined in the Indenture) and certain funds and accounts held under the Indenture. Revenues consist primarily of amounts received by the Authority from the City as payment on the Reassessment Bonds, which payments are secured by liens of unpaid reassessments on the properties in the City's Assessment District No. 2000-1 (Madrone Business Park) (the "District").

The City, the Trustee, the Dissemination Agent and TBI Development hereby covenant and agree as follows:

Section 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

Section 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Affiliate" of another Person shall mean, (a) a Person that, directly or indirectly, owns or controls, whether beneficially or as an agent, guardian or other fiduciary, five percent or more of the outstanding voting securities of such other Person, (b) any Person, five percent or more of whose outstanding voting securities are directly or indirectly owned, controlled or held with the power to vote by such other Person, (c) any Person directly or indirectly controlling, controlled by, or under common control of such other Person, or (d) each of such Person's executive officers, directors, joint venturers and general partners. For the purpose of this definition, "control" of a Person shall mean the possession, directly or indirectly, of the power to direct or cause the direction of its management or policies, whether through the ownership of voting securities, by contract or otherwise.

"Annual Report" shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Assumption Agreement” shall mean an agreement by and among any Transferee, the City, the Trustee and Dissemination Agent containing terms substantially similar to this Disclosure Agreement, whereby such Transferee agrees to provide annual reports, setting forth the information described in clauses (i), (ii) and (iii) of Section 4(g) hereof with respect to the property owned by such Transferee or Transferee’s Affiliates in the District.

“Disclosure Representative” shall mean the Finance Director of the City or his or her designee, or such other person as the City shall designate in writing to the Trustee and the Dissemination Agent from time to time.

“Dissemination Agent” shall mean NBS Government Finance Group as the Dissemination Agent hereunder or any successor Dissemination Agent designated in writing by the City and which has filed with the City and the Trustee a written acceptance of such designation.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

“Official Statement” shall mean the final Official Statement, dated _____, 2005, relating to the Bonds.

“Owners” shall mean the registered owners of the Bonds or, if the Bonds are registered in the name of a depository, the beneficial owners of the Bonds.

“Participating Underwriter” shall mean Piper Jaffray & Co., as the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Person” shall mean an individual, a corporation, a partnership, an association, a joint stock company, a trust, any unincorporated organization or a government or political subdivision thereof.

“Repository” shall mean each National Repository and each State Repository.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State Repository” shall mean any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule. As of the date of this Disclosure Agreement, there is no State Repository.

“TBI Affiliate” shall mean TBI Development or an Affiliate of TBI Development.

“Transferee” shall have the meaning given to such term in Section 7(b).

Section 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than February 15 of each year, commencing with the report for the 2004-05 fiscal year, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement, with a copy to the Trustee. Not later than fifteen (15) Business Days prior to said date, the City shall provide to the Dissemination Agent (with a copy to the Trustee), a report that contains all of the information described in Subsections (a) through (f) of Section 4. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if not available by that date. If the City's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c) hereof. The City shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the City and shall have no duty or obligation to review such Annual Report.

(b) Subject to Section 7, TBI Development shall provide a report to the Dissemination Agent (with a copy to the City) no later than December 31 of each year, commencing with the report due December 31, 2005. Such report shall contain all of the information described in clauses (i), (ii) and (iii) of Section 4(g) hereof. Such report may be submitted as a single document or as separate documents comprising a package. TBI Development shall provide a written certification with each such report furnished to the Dissemination Agent to the effect that such report constitutes the report to be furnished under this Disclosure Agreement.

(c) If within fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the Repositories, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the City to determine if the City is in compliance with subsection (a).

(d) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to that effect to the Municipal Securities Rulemaking Board in substantially the form attached hereto as Exhibit A.

(e) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any, and

(ii) if the Annual Report has been furnished to the Dissemination Agent, file a report with the City and the Trustee (if the Dissemination Agent is not the Trustee) certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

Section 4. Content of Annual Reports. The Annual Report shall contain or incorporate by reference the following:

(a) Audited Financial Statements of the City for the most recent fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board, and as further modified according to applicable State law. If the City's audited financial statements are not available at the time the Annual Report is required to be filed pursuant to Section 3(a) hereof, the Annual Report shall contain unaudited financial statements in a format similar to the usual format utilized by the City, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available;

(b) Outstanding principal amount of the Bonds and the balance of the Reserve Account relating to the Bonds, as of the preceding October 1;

(c) Outstanding principal amount of the Reassessment Bonds and the balance of the Redemption Fund relating to the Reassessment Bonds, and all accounts within such fund, if any, as of the preceding October 1;

(d) Information regarding the proposed or completed formation by the City of any assessment districts or community facilities districts that will result in the levy of additional assessment or special taxes on parcels of property within the District;

(e) Information concerning any delinquencies in the payment of Reassessments, including (i) the total amount of delinquencies in the District, both as a dollar amount and as a percentage of the total levy for the fiscal year, and (ii) with respect to any delinquency of an owner which owns land subject to Reassessment, the following information respecting the parcel(s) held by such owner:

(A) the amount delinquent (exclusive of late charges and monthly penalties for reinstatement);

(B) the date (December 10 or April 10) of the first delinquency;

(C) in the event a foreclosure complaint has been filed respecting such delinquent parcel and such complaint has not been dismissed, the date on which the complaint was filed; and

(D) in the event a foreclosure sale has occurred respecting such delinquent parcel, a summary of the results of such foreclosure sale; and

(f) Assessed valuation as shown on the last equalized assessment roll of the County of Santa Clara of all taxable property in the District subject to Reassessment for the then current fiscal year and list of the property owners responsible for greater than 5 percent of the remaining Reassessment lien.

(g) To the extent that such information has been furnished to the Dissemination Agent pursuant to Section 3(b):

(i) A description of any long-term lease (*i.e.*, any lease with a term of three years or longer) then in effect or any sales of fee title which took place during the most recent fiscal year with respect to any parcel (or a portion thereof) in the District that is owned by an TBI Affiliate, including the identification of the lessee or purchaser and the approximate number of acres leased or sold;

(ii) The number of acres of land in the District owned by each TBI Affiliate as of the end of the most fiscal year;

(iii) Any pending litigation or proceedings by governmental agencies against any TBI Affiliate, which if the decision, ruling or outcome thereof turns out to be unfavorable to the TBI Affiliate, would prevent one or more TBI Affiliates from paying special taxes or assessments, including the Reassessments, on their property in the District.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The City shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- (7) Modifications to rights of Bond Owners;
- (8) Optional, contingent or unscheduled Bond calls;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the Bonds;
- (11) Rating changes.

(b) The Trustee shall, promptly upon obtaining actual knowledge of the occurrence of any of the Listed Events contact the Disclosure Representative, inform such person of the event, and request that the City promptly notify the Dissemination Agent in writing whether the Listed Event is material and, if so, whether or not to report the event pursuant to subsection (f), and promptly notify the Trustee in writing whether or not to report the event to the Owners (unless notice to the Owners is already required by the Indenture). For purposes of this Disclosure Agreement, “actual knowledge” of the occurrence of such Listed Events shall mean actual knowledge by the officer at the Trust Office of the Trustee with regular responsibility for the administration of the Indenture

(c) Whenever the City obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Trustee pursuant to subsection (b) or otherwise, the City shall as soon as possible determine if such event would be material under applicable federal securities law.

(d) If the City determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities law, the City shall promptly notify the Dissemination Agent and the Trustee in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (f) and shall instruct the Trustee to report the occurrence to the Owners of the Bonds affected by the occurrence of such event.

(e) If in response to a request under subsection (b), the City determines that the Listed Event is not material, the City shall so notify the Dissemination Agent and the Trustee in writing and instruct the Dissemination and the Trustee to not report the event.

(f) If the Dissemination Agent has been instructed by the City to report the occurrence of a Listed Event, the Dissemination Agent shall promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and each Repository, with a copy to the Trustee. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds pursuant to the Indenture.

Section 6. Termination of City's Reporting Obligations. The City's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination on the same manner as for a Listed Event under Section 5(c) hereof.

Section 7. Termination of TBI Development's Reporting Obligations; Assumption of TBI Development's Obligations.

(a) TBI Development's obligations under this Disclosure Agreement shall terminate upon the earliest to occur of the following: (i) the legal defeasance, prior redemption or payment in full of all of the Bonds, (ii) subject to Section 7(c), the date that TBI Affiliates, collectively, own less than 25 percent of the land, by area, in the District; or (iii) the date on which all of the Reassessments attributable to the property then owned by TBI Affiliates in the District have been prepaid in full. TBI Development shall give a prompt written notice to the City and the Dissemination Agent of the termination of its obligation under this Disclosure Agreement.

(b) If all or a portion of the property in the District owned by one or more TBI Affiliates is to be sold, assigned or otherwise conveyed to a Person (the "Transferee") that is not a TBI Affiliate, such that, upon such conveyance, the Transferee, together with Affiliates of such Transferee if any, will own more than 25 percent of the land, by area, in the District, TBI Development shall cause to be included in the conveyance agreement a provision that the Transferee shall execute an Assumption Agreement promptly following the closing of escrow for the conveyance.

TBI Development shall promptly notify the City in writing of any conveyance to a Transferee described in the preceding paragraph. Following the close of escrow for the conveyance, the City, the Trustee and the Dissemination Agent shall enter into an Assumption Agreement with the Transferee; provided that the Assumption Agreement shall be in form and substance satisfactory to the City, or is otherwise substantially identical to this Disclosure Agreement. From and after the date on which such Assumption Agreement is executed, the TBI Development shall no longer be required to take the property so conveyed to the Transferee into account in connection with its report to be delivered under Section 3(b).

(c) Notwithstanding any of the foregoing, if following a conveyance of property described in Section 7(b), TBI Affiliates collectively shall own less than 25 percent of the land by area in the District, TBI Development's reporting obligations hereunder shall not terminate pursuant to clause (ii) of Section 7(a) unless and until the Assumption Agreement required by Section 7(b) has been duly executed and delivered by the Transferee.

(d) Except as expressly provided in this Section 7, TBI Development may not assign its obligations hereunder without the prior written consent of the City.

Section 8. Dissemination Agent. The City may, from time to time, appoint or engage a Disseminating Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be NBS Government Finance Group. The Dissemination Agent may resign by giving thirty (30) days written notice to the City and the Trustee.

Any company into which the Dissemination Agent may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Dissemination Agent may sell or transfer all or substantially all of its corporate trust business, shall be the successor to the Dissemination Agent without the execution or filing of any paper or further action anything herein to the contrary notwithstanding.

Section 9. Amendment; Waiver. Notwithstanding any other provision herein to the contrary, any provision in the Disclosure Agreement may be amended or waived (and the Trustee and the Dissemination Agent shall agree to any such amendment or waiver requested by the City, provided that neither the Trustee nor the Dissemination Agent shall be obligated to enter into any amendment or agree to any waiver that modifies or increases its duties or obligations hereunder), provided that the following conditions are satisfied:

(a) the amendment or waiver, if it relates to annual or event information to be provided, is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the City or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances;

(c) the proposed amendment or waiver (i) is approved by Owners of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of Owners, or (ii) does not, in the opinion of the Trustee or nationally recognized bond counsel, materially impair the interest of Owners; and

(d) no amendment increasing or affecting the obligations or duties of the Dissemination Agent or the Trustee shall be made without the consent of either party.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the annual financial information containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be sent to the Repositories.

Section 10. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If Agency chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the City shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. In the event of a failure of the City or TBI Development to comply with any provision of this Disclosure Agreement, the Trustee at the written request of any Participating Underwriter or holders of at least a majority in aggregate amount of Outstanding Bonds, shall, but only to the extent indemnified to its satisfaction from and against any loss, cost, expense or liability of any kind whatsoever, including, without limitation, fees and expenses of its attorneys and additional fees and expenses of the Trustee, or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the City or TBI Development, as applicable, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the City, TBI Development, the Trustee or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to them hereunder and shall not be deemed to be acting in any fiduciary capacity hereunder for the City, the Owners, or any other party. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 13. Beneficiaries. The Disclosure Agreement shall inure solely to the benefit of the City, the Dissemination Agent, the Trustee, TBI Development the Participating Underwriter and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 15. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused their duly authorized representatives to execute and deliver this Disclosure Agreement on the date first written above.

CITY OF MORGAN HILL

By: _____
City Manager

NBS GOVERNMENT FINANCE GROUP
as Dissemination Agent

By: _____
Authorized Representative

**THE BANK OF NEW YORK TRUST
COMPANY, N.A.,**
as Trustee

By: _____
Authorized Representative

TOENISKOETTER & BREEDING, INC.
DEVELOPMENT, a California corporation

By: _____
Authorized Representative

EXHIBIT A

NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD OF
FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Morgan Hill Financing Authority

Name of Bond Issues: \$_____ Reassessment Revenue Bonds, Series 2005A (Madrone Business
Park), and \$_____ Reassessment Revenue Bonds, Series 2005B (Taxable)
(Madrone Business Park),

Date of Issuance: _____, 2005

NOTICE IS HEREBY GIVEN that the City of Morgan Hill (the "City") has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Agreement dated February 1, 2005, executed by and among the City, NBS Government Finance Group, as Dissemination Agent, The Bank of New York Trust Company, N.A., as Trustee, and Toeniskoetter & Breeding, Inc. Development. The City anticipates that the Annual Report will be filed by _____.

Dated: _____

NBS GOVERNMENT FINANCE GROUP
as Dissemination Agent on behalf of the City of
Morgan Hill

By: _____
Name: _____
Title: _____

cc: City of Morgan Hill, Finance Director

RESOLUTION NO. _____

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MORGAN HILL MAKING A FINDING OF SIGNIFICANT PUBLIC BENEFIT AND OTHER FINDINGS IN CONNECTION WITH THE ISSUANCE AND SALE OF MORGAN HILL FINANCING AUTHORITY REASSESSMENT REVENUE BONDS, SERIES 2005A (MADRONE BUSINESS PARK) AND MORGAN HILL FINANCING AUTHORITY REASSESSMENT REVENUE BONDS, SERIES 2005B (MADRONE BUSINESS PARK) (TAXABLE)

RECITALS:

WHEREAS, the Morgan Hill Financing Authority (the “Authority”) is a joint powers authority duly organized and existing under and pursuant to Articles 1 through 4 (commencing with Section 6500), Chapter 5, Division 7, Title 1 of the California Government Code and that certain Joint Exercise of Powers Agreement, dated as of November 5, 2003, by and between the City of Morgan Hill (the “City”) and the Morgan Hill Redevelopment Agency, and is authorized pursuant to Article 4 of the Act to issue bonds for the purpose of financing the acquisition of bonds, notes and other obligations of the City, including those issued by the City for its assessment districts, to provide refinancing for public capital improvements; and

WHEREAS, the Authority has proposed to sell and issue its (i) Reassessment Revenue Bonds Series 2005A (Madrone Business Park) (the “Series 2005A Bonds”) and (ii) Morgan Hill Financing Authority Reassessment Revenue Bonds Series 2005B (Madrone Business Park) (Taxable) (the “Series 2005B Bonds,” and together with the Series 2005A Bonds, the “Authority Bonds”); and

WHEREAS, proceeds of the Authority Bonds are to be applied by the Authority to purchase the City’s (i) Assessment District No. 2000-1 (Madrone Business Park) Limited Obligation Refunding Improvement Bonds, Series 2005A (the “Reassessment 2005A Bonds”) and (ii) Assessment District No. 2000-1 (Madrone Business Park) Limited Obligation Refunding Improvement Bonds, Series 2005B (Madrone Business Park) (Taxable) (the “Reassessment 2005B Bonds,” and together with the Reassessment 2005A Bonds, the “Reassessment Bonds”); and

WHEREAS, the Reassessment Bonds will be issued pursuant to and under the Refunding Act of 1984 for 1915 Improvement Act Bonds, as set forth in Division 11.5 (commencing with Section 9500) of the California Streets and Highways Code, for the purpose of refunding all of the City’s remaining outstanding (a) Limited Obligation Improvement Bonds, Assessment District No. 2000-1 (Madrone Business Park) Series A 2000 (the “Prior 2000A Bonds”) and (b) Limited Obligation Improvement Bonds, Assessment District No. 2000-1 (Madrone Business Park), Series B 2000 (Taxable) (the “Prior 2000B Bonds”);

WHEREAS, the Prior 200A Bonds and the Prior 2000B were issued to finance public capital improvements in the City's Assessment District No. 2000-1 (Madrone Business Park) (the "District"); and

WHEREAS, in light of currently favorable market conditions, the City expects that the issuance of the Reassessment Bonds will result in the lowering of the amount of the annual assessments to be levied on the properties located in District; and

WHEREAS, pursuant to Section 6586.5 of the California Government Code, after notice duly published in accordance with law, the City Council of the City (the "City Council") held a public hearing on this date with respect to the proposed financing;

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF MORGAN HILL DOES HEREBY RESOLVE, DETERMINE AND ORDER AS FOLLOWS:

Section 1. Recitals. The above recitals, and each of them, are true and correct.

Section 2. Approval of Financing. The City Council hereby finds that the Authority's issuance of the Authority Bonds to provide refinancing of public capital improvements in the District will result in significant public benefits to the constituents of the City, including demonstrable savings in effective interest rate. The City Council hereby approves the issuance of the Authority Bonds.

Section 3. Other Acts. The officers of the City are hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all documents which they may deem necessary or advisable in order to effectuate the purposes of this Resolution and any such actions previously taken by such officers are hereby ratified and confirmed.

Section 4. Effective Date. This Resolution shall take effect immediately upon adoption.

PASSED AND ADOPTED by the City Council of the City of Morgan Hill at a regular meeting held on the 26th day of January, 2005, by the following vote:

AYES: COUNCIL MEMBERS:

NOES: COUNCIL MEMBERS:

ABSTAIN: COUNCIL MEMBERS:

ABSENT: COUNCIL MEMBERS:

Mayor

ATTEST:

City Clerk

RESOLUTION NO. MHFA-__

**A RESOLUTION OF THE MORGAN HILL FINANCING AUTHORITY
ACKNOWLEDGING A FINDING OF SIGNIFICANT PUBLIC BENEFIT
IN CONNECTION WITH THE ISSUANCE AND SALE OF THE
AUTHORITY'S REASSESSMENT REVENUE BONDS, SERIES 2005A
(MADRONE BUSINESS PARK) AND REASSESSMENT REVENUE
BONDS, SERIES 2005B (MADRONE BUSINESS PARK) (TAXABLE);
AUTHORIZING THE ISSUANCE, SALE AND DELIVERY OF SAID
BONDS; APPROVING AS TO FORM AND AUTHORIZING THE
EXECUTION AND DELIVERY OF CERTAIN DOCUMENTS IN
CONNECTION THEREWITH; AND AUTHORIZING CERTAIN OTHER
MATTERS RELATING THERETO**

RECITALS:

WHEREAS, the Morgan Hill Financing Authority (the "Authority") is a joint powers authority duly organized and existing under and pursuant to Articles 1 through 4 (commencing with Section 6500), Chapter 5, Division 7, Title 1 of the California Government Code (the "Act") and that certain Joint Exercise of Powers Agreement, dated as of November 5, 2003, by and between the City of Morgan Hill (the "City") and the Morgan Hill Redevelopment Agency, and is authorized pursuant to Article 4 of the Act to issue bonds for the purpose of financing the acquisition of bonds, notes and other obligations of the City, including those issued by the City for its assessment districts, to provide refinancing for public capital improvements; and

WHEREAS, the Authority proposes to sell and issue its Reassessment Revenue Bonds, Series 2005A (Madrone Business Park) (the "Series 2005A Bonds") and Reassessment Revenue Bonds, Series 2005B (Madrone Business Park) (Taxable) (the "Series 2005B Bonds," and together with the Series 2005A Bonds, the "Bonds") to be issued and secured pursuant to an Indenture (as defined herein); and

WHEREAS, the City Council of the City (the "City Council") has made a finding, after duly noticed public hearing pursuant to Section 6586.5 of the Government Code, that the issuance of the Bonds will result in significant public benefit; and

WHEREAS, proceeds of the Bonds are to be applied by the Authority to purchase the City's Assessment District No. 2000-1 (Madrone Business Park), Limited Obligation Refunding Improvement Bonds, Series 2005A (the "Reassessment 2005A Bonds") and Assessment District No. 2000-1 (Madrone Business Park), Limited Obligation Refunding Improvement Bonds, Series 2005B (Taxable) (the "Reassessment 2005B Bonds," and together with the Series 2005A Bonds, the "Reassessment Bonds"); and

WHEREAS, the Reassessment Bonds are being issued to refund all of the City's remaining outstanding (a) Limited Obligation Improvement Bonds, Assessment District No. 2000-1 (Madrone Business Park), Series A 2000 (the "Prior 2000A Bonds") and (b) Limited Obligation Bonds, Assessment District No. 2000-1 (Madrone Business Park), Series B 2000

(Taxable) (the “Prior 2000B Bonds”); and

WHEREAS, the Prior 2000A Bonds and the Prior 2000B Bonds were issued to provide financing of public capital improvements in the City’s Assessment District No. 2000-1 (Madrone Business Park) (the “District”);

NOW, THEREFORE, THE MORGAN HILL FINANCING AUTHORITY DOES HEREBY RESOLVE, DETERMINE AND ORDER AS FOLLOWS:

Section 1. Recitals. The above recitals, and each of them, are true and correct.

Section 2. Acknowledgement of City Council Findings and Authorization to Issue Bonds. The Authority hereby acknowledges and concurs with the City Council’s finding of significant public benefit and hereby approves and authorizes the issuance and sale of the Bonds, subject to the parameters set forth below.

Section 3. Indenture. The Indenture of Trust (the “Indenture”), proposed to be entered into by and between the Authority and the Trustee (defined in Section 4 below), in the form presented at this meeting and on file with the Secretary of the Authority (the “Authority Secretary”), is hereby approved. Subject to Section 6 below, each of the President, the Vice President, the Chief Administrative Officer and the Treasurer, any deputy of such officers, and any member of the Authority Commission (each, an “Authorized Officer”), acting singly, is hereby authorized and directed, for and in the name and on behalf of the Authority, to execute and deliver the Indenture in substantially said form, with such additions or changes as the Authorized Officer executing the same may approve (such approval to be conclusively evidenced by such Authorized Officer’s execution and delivery thereof).

Section 4. Appointment of Trustee. The appointment of The Bank of New York Trust Company, N.A., as trustee (the “Trustee”) under the Indenture is hereby approved.

Section 5. Purchase Contract. The Bond Purchase Contract (the “Purchase Contract”) in the form presented at this meeting by Piper Jaffray, Inc. (the “Underwriter”) and the sale of the Bonds pursuant thereto upon the terms and conditions set forth therein are hereby approved. Subject to Section 6 below, each Authorized Officer, acting singly, is authorized and directed, for and in the name and on behalf of the Authority, to execute and deliver the Purchase Contract in substantially said form, with such additions or changes therein as the Authorized Officer executing the same may require or approve, including such matters as are authorized by Section 6 hereof (such approval to be conclusively evidenced by such Authorized Officer’s execution and delivery thereof).

Section 6. Terms of Sale of Bonds. Each Authorized Officer, acting singly, is hereby authorized and directed to act on behalf of the Authority to establish and determine (i) the aggregate principal amount of the Series 2005A Bonds, which amount shall not exceed \$10,000,000; (ii) the aggregate principal amount of the Series 2005B Bonds, which amount shall not exceed \$1,500,000; (iii) the purchase price of the Bonds and the interest rates thereon, provided that the interest rate with respect to the Series 2005A Bonds shall not exceed 6.00 percent per annum and the interest rate with respect to the Series 2005B Bonds shall not exceed 8.25 percent per annum; and (iv) the Underwriter’s discount with respect to the Bonds; provided

that the Underwriter's discount with respect to the Series 2005A Bonds shall not exceed 1.5 percent of the principal amount thereof and the Underwriter's discount with respect to the Series 2005B Bonds shall not exceed 2.25 percent of the principal amount thereof. The authorization and powers delegated to the Authorized Officers by this Section 6 shall be valid for a period of 180 days from the date of adoption of this Resolution.

Section 7. Preliminary Official Statement. The Preliminary Official Statement relating to the Bonds (the "Preliminary Official Statement"), in the form presented at this meeting and on file with the Authority Secretary, is hereby approved. Each Authorized Officer, acting singly, is hereby authorized and directed, for and in the name and on behalf of the Authority, to cause the Preliminary Official Statement in substantially said form, with such additions or changes therein as such Authorized Officer may approve, to be deemed final for the purposes of Rule 15c2-12 of the Securities and Exchange Act of 1934. The distribution by the Underwriter of copies of the Preliminary Official Statement to potential purchasers of the Bonds is hereby approved.

Section 8. Official Statement. Each Authorized Officer, acting singly, is hereby authorized and directed, for and in the name and on behalf of the Authority, to cause the Preliminary Official Statement to be brought into the form of a final Official Statement (the "Official Statement"), and to execute the same for and in the name and on behalf of the Authority, with such additions or changes therein as such Authorized Officer may approve (such approval to be conclusively evidenced by such Authorized Officer's execution and delivery thereof). The distribution and use of the Official Statement by the Underwriter in connection with the sale of the Bonds are hereby approved.

Section 9. Reassessment Bonds Purchase Agreement. The Bond Purchase Agreement (the "Reassessment Bonds Purchase Agreement") providing for the Authority's purchase of the Reassessment Bonds, proposed to be entered into by and between the Authority and the City, in the form presented at this meeting and on file with the Authority Secretary, is hereby approved. Subject to the last sentence of this Section 9, each Authorized Officer, acting singly, is hereby authorized and directed, for and in the name and on behalf of the Authority, to execute and deliver the Reassessment Bonds Purchase Agreement in substantially said form, with such additions or changes therein as the Authorized Officer executing the same may approve (such approval to be conclusively evidenced by such Authorized Officer's execution and delivery thereof). In compliance with Section 6592.5 of the California Government Code, in no event shall the Reassessment Bonds be purchased by the Authority at a price to yield in excess of one percent of the yield of the Bonds (with "yield" to be calculated according to said Section 6592.5 of the California Government Code).

Section 10. Requisitions. Each Authorized Officer, acting singly, is hereby authorized and directed to execute one or more requisitions authorizing the Trustee to pay the costs of issuing the Bonds from the proceeds of the Bonds pursuant to the Indenture.

Section 11. Appointment of Financial Advisor and Bond Counsel. The appointments of (i) RBC Dain Rauscher Inc. to act as financial advisor to the Authority, and (ii) Richards, Watson & Gershon, A Professional Corporation, as Bond Counsel, in connection with the transactions contemplated by this Resolution are hereby approved. The fees of each of the

foregoing shall be paid from the proceeds of the Bonds and in accordance with the agreements presented to this meeting and on file in the office of the Finance Director of the City.

Section 12. Other Acts. The Authorized Officers and all other officers of the Authority are hereby authorized and directed, jointly and severally, to do any and all things, to execute and deliver any and all documents that they may deem necessary or advisable in order to consummate the issuance, sale and delivery of the Bonds, or otherwise to effectuate the purposes of this Resolution, the Indenture, the Purchase Contract, the Official Statement, the Reassessment Bonds Purchase Agreement and any such actions previously taken by such officers are hereby ratified and confirmed.

Section 13. Effective Date. This Resolution shall take effect immediately upon adoption.

PASSED AND ADOPTED by the Morgan Hill Financing Authority Commission at a special meeting held on the 26th day of January, 2005, by the following vote:

AYES: COMMISSION MEMBERS:

NOES: COMMISSION MEMBERS:

ABSTAIN: COMMISSION MEMBERS:

ABSENT: COMMISSION MEMBERS:

President

ATTEST:

Secretary

INDENTURE OF TRUST

by

MORGAN HILL FINANCING AUTHORITY

and

THE BANK OF NEW YORK TRUST COMPANY, N.A.,
as Trustee

Dated as of February 1, 2005

with reference to

\$ _____
Morgan Hill Financing Authority
Reassessment Revenue Bonds
Series 2005A
(Madrone Business Park)

\$ _____
Morgan Hill Financing Authority
Reassessment Revenue Bonds
Series 2005B (Madrone Business Park)
(Taxable)

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EXHIBIT A – FORM OF SERIES 2005A BOND

EXHIBIT B – FORM OF SERIES 2005B BOND

INDENTURE OF TRUST

This **Indenture of Trust** (this “Indenture”) is made and entered into as of February 1, 2005, by and between the **Morgan Hill Financing Authority**, a joint powers authority duly organized and validly existing under the laws of the State of California (the “Authority”) and **The Bank of New York Trust Company, N.A.**, a national banking association duly organized and validly existing under the laws of the United States of America, having a corporate trust office in Los Angeles, California, and being qualified to accept and administer the trusts hereby created (the “Trustee”).

Recitals

A. The Authority is a joint exercise of powers authority duly organized and existing under and pursuant to that certain Joint Exercise of Powers Agreement dated November 5, 2003, by and between the City of Morgan Hill (the “City”) and the Morgan Hill Redevelopment Agency, and under the provisions of Articles 1 through 4 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the “Act”), and is authorized pursuant to Article 4 of the Act (the “Bond Law”) to issue bonds for the purpose of purchasing bonds, notes and other obligations of the City to assist the City in the refinancing of public capital improvements of the City.

B. The Authority has determined to issue its “Morgan Hill Financing Authority Reassessment Revenue Bonds, Series 2005A (Madrone Business Park)” in the aggregate principal amount of \$_____ (the “Series 2005A Bonds”) and its “Morgan Hill Financing Authority Reassessment Revenue Bonds, Series 2004B (Madrone Business Park) (Taxable)” in the aggregate principal amount of \$_____ (the “Series 2005B Bonds” and together with the Series 2005A Bonds, the “Bonds”) for the purpose of providing funds to purchase the City’s Assessment District No. 2000-1 (Madrone Business Park), Limited Obligation Refunding Improvement Bonds, Series 2005A (the “Reassessment 2005A Bonds”) and the City’s Assessment District No. 2000-1 (Madrone Business Park), Limited Obligation Refunding Improvement Bonds, Reassessment 2005B (Taxable) (the “Reassessment 2005B Bonds” and together with the Reassessment 2005A Bonds, the “Reassessment Bonds”).

C. To provide for the authentication and delivery of the Bonds, to establish and declare the terms and conditions upon which the Bonds are to be issued and to secure the payment of the principal thereof, premium, if any, and interest thereon, the Authority has authorized the execution and delivery of this Indenture.

NOW, THEREFORE, THIS INDENTURE WITNESSETH, that in order to secure the payment of the principal of, premium, if any, and interest on the Bonds at any time issued and Outstanding under this Indenture, according to their tenor, and to secure the performance and observance of all the covenants and conditions therein and herein set forth, and to declare the terms and conditions upon and subject to which the Bonds are to be issued and received, and in consideration of the premises and of the mutual covenants herein contained and of the purchase and acceptance of the Bonds by the Owners thereof, and for other valuable considerations, the receipt whereof is hereby acknowledged, the Authority hereby covenants and agrees with the Trustee, for the benefit of the Owners of the Bonds, as follows:

ARTICLE I

DEFINITIONS; AUTHORIZATION AND PURPOSE OF BONDS; EQUAL SECURITY

Section 1.01. Definitions. The following terms shall for all purposes of this Indenture and of any Supplemental Indenture and of any certificate, opinion, request or other documents herein mentioned have the meanings ascribed thereby.

“Act” means Articles 1 through 4 (commencing with Section 6500) of Chapter 5, Division 7, Title 1 of the Government Code of the State, as in existence on the Closing Date or as thereafter amended from time to time.

“Annual Debt Service” means, for each Bond Year, the sum of (a) the interest due on the Outstanding Bonds in such Bond Year, assuming that the Outstanding Bonds are retired as scheduled, and (b) the principal amount of the Outstanding Bonds scheduled to be paid in such Bond Year.

“Assessment District” means the City’s Assessment District No. 2000-1 (Madrone Business Park), originally formed pursuant to Resolution No. 5356 adopted by the City Council of the City on March 15, 2000, and related proceedings.

“Authority” means the Morgan Hill Financing Authority, a joint powers authority duly organized and existing under the Joint Exercise of Powers Agreement, dated November 5, 2003, by and between the City and the Morgan Hill Redevelopment Agency, and under the laws of the State.

“Authority Commission” means the governing body of the Authority.

“Bond Counsel” means Richards, Watson & Gershon, A Professional Corporation, Los Angeles, California, or a firm of attorneys of favorable reputation in the field of municipal bond law.

“Bond Law” means the Marks-Roos Local Bond Pooling Act of 1985, being Article 4 of the Act (commencing with Section 6584), as in existence on the Closing Date or as thereafter amended from time to time.

“Bond Year” means each twelve-month period extending from September 3 in one calendar year to September 2 of the succeeding calendar year, both dates inclusive, except that the first Bond Year shall begin on the Closing Date and extend to and include September 2, 2005.

“Bonds” means, collectively, the Series 2005A Bonds and the Series 2005B Bonds.

“Business Day” means any day of the year, other than (i) a Saturday or Sunday, or (ii) a day on which banks in New York, New York and Los Angeles, California, and San Francisco, California are required or authorized to remain closed and on which the New York Stock Exchange is closed.

“Certificate” means a certificate in writing signed by any officer of the designated public entity, duly authorized by its legislative body for that purpose.

“City” means the City of Morgan Hill, a general law city and municipal corporation duly organized and validly existing under the laws of the State.

“City Reassessment Bond Resolution” means Resolution No. _____ adopted by the City Council of the City on _____, 2005, approving, among other things, the issuance of the Reassessment Bonds and the transfer of a portion the 2004-05 Assessments to fund the Reserve Account.

“Closing Date” means the date of delivery of the Bonds to the Underwriter as the original purchaser. Unless otherwise agreed by the Authority, the City and the Underwriter, the Closing Date shall be _____, 2005.

“Code” means the Internal Revenue Code of 1986 as in effect on the date of original issuance of the Bonds or (except as otherwise referenced herein) as it may be amended to apply to obligations issued on the date of original issuance of the Bonds, together with regulations promulgated, and official public guidance published, under the Code.

“Costs of Issuance” means items of expense payable or reimbursable directly or indirectly by the Authority and the City and related to the authorization, sale and issuance of the Bonds and the Reassessment Bonds, which items of expense shall include, but not be limited to, printing costs, costs of reproducing and binding documents, including but not limited to the preliminary official statement and official statement regarding the Bonds, closing costs, filing and recording fees, expenses incurred by the Authority or the City in connection with the issuance of the Bonds or the Reassessment Bonds, bond (underwriter’s) discount, fees and charges of consultants performing services in connection with the reassessment proceedings for the Assessment District, legal fees and charges, including the fees of bond counsel and disclosure counsel, charges for authentication, transportation and safekeeping of the bonds and other costs, charges and fees in connection with the foregoing.

“Cost of Issuance Fund” means the fund by that name established and held by the Trustee pursuant to Section 3.04.

“County” means the County of Santa Clara, California.

“Depository” means The Depository Trust Company, New York, New York, and its successors and assigns as securities depository for the Bonds, or any other securities depository acting as Depository under Article X.

“Event of Default” means any of the events described in Section 8.01.

“Federal Securities” means any of the following which at the time of investment are determined by the City to be legal investments under the laws of the State of California for the moneys proposed to be invested therein:

- (i) Cash; and
- (ii) Direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), or obligations, the payment of principal of and interest on which is unconditionally guaranteed by the United States of America.

“Fiscal Agent” means The Bank of New York Trust Company, N.A., in its capacity as Fiscal Agent under the Fiscal Agent Agreement, and its successors and assigns.

“Fiscal Agent Agreement” means the Fiscal Agent Agreement dated February 1, 2005 entered into by the City and the Fiscal Agent providing for the issuance of the Reassessment Bonds.

“Fiscal Year” means any twelve-month period extending from July 1 in one calendar year to June 30 of the succeeding calendar year, both dates inclusive, or any other twelve-month period selected and designated by the Authority as its official fiscal year period.

“Indenture” means this Indenture of Trust, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture pursuant to the provisions hereof.

“Independent Accountant” means any certified public accountant or firm of certified public accountants appointed and paid by the Authority, and who, or each of whom (i) is in fact independent and not under domination of the Authority or the City; (ii) does not have any substantial interest, direct or indirect, in the Authority or the City; and (iii) is not connected with the Authority or the City as an officer or employee of the Authority, the City or the City but whom may be regularly retained to make annual or other audits of the books of or reports to the Authority or the City.

“Information Services” means Financial Information, Inc.’s “Daily Called Bond Service,” 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Mergent/FIS, Inc., 5250 77 Center Drive, Suite 150, Charlotte, North Carolina 28217, Attention: Called Bond Department; and Standard & Poor’s J.J. Kenny Drake, Inc., 55 Water Street, New York, New York 10041, Attention: Notification Department; or, in accordance with then-current guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing information with respect to called bonds as the Authority may designate to the Trustee in writing.

“Interest Account” means the account by that name in the Revenue Fund established and held by the Trustee pursuant to Section 4.02(b)(1).

“Interest Payment Dates” means March 2 and September 2 in each year, commencing September 2, 2005.

“Maximum Annual Debt Service” means the amount determined by the Authority to be the largest Annual Debt Service for any Bond Year after the calculation is made through the final maturity date of any Outstanding Bonds.

“Moody’s” means Moody’s Investors Service, its successors and assigns.

“Nominee” means the nominee of the Depository, which may be Cede & Co., as determined from time to time pursuant to Article X.

“Outstanding,” when used as of any particular time with reference to Bonds, means (subject to the provisions of Section 11.07) all Bonds theretofore executed, issued and delivered by the Authority under this Indenture except (i) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation, (ii) Bonds paid or deemed to have been paid within the meaning of Section 11.03, and (iii) Bonds in lieu of or in substitution for which other Bonds shall have been executed, issued and delivered pursuant to this Indenture.

“Owner” means the person in whose name the ownership of such Bond or Bonds shall be registered on the Registration Books.

“Participants” means those broker-dealers, banks and other financial institutions from time to time for which the Depository holds Bonds as securities depository.

“Permitted Investments” means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein:

(a) Direct obligations of the United States (including obligations issued or held in book-entry form on the books of the Department of the Treasury, and CATS and TIGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States.

(b) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States (stripped securities are only permitted if they have been stripped by the agency itself):

1. U.S. Export-Import Bank (“Eximbank”)
Direct obligations or fully guaranteed certificates of beneficial ownership
2. Farmers Home Administration (“FmHA”)
Certificates of beneficial ownership
3. Federal Financing Bank
4. Federal Housing Administration Debentures (“FHA”)
5. General Services Administration
Participation certificates
6. Government National Mortgage Association (“GNMA”)
GNMA - guaranteed mortgage-backed bonds
GNMA - guaranteed pass-through obligations
(participation certificates) (not acceptable for certain cash-flow sensitive issues)
7. United States Maritime Administration
Guaranteed Title XI financing
8. United States Department of Housing and Urban Development
Project Notes
Local Authority Bonds
New Communities Debentures
United States government guaranteed debentures
United States Public Housing Notes and Bonds
United States government guaranteed public housing notes and bonds

(c) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit United States government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

1. Federal Home Loan Bank System
Senior debt obligations
2. Federal Home Loan Mortgage Corporation (“FHLMC”)

Participation Certificates
Senior debt obligations

3. Federal National Mortgage Association (“FNMA”) Mortgage-backed securities and senior debt obligations
4. Student Loan Marketing Association (“SLMA”) Senior debt obligations
5. Resolution Funding Corporation obligations

(d) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of “AAAm-G,” “AAA-m” or “AA-m” and if rated by Moody’s rated “Aaa,” “Aa1” or “Aa2,” including funds for which the Trustee or any of its affiliates (including any holding company, subsidiaries, or other affiliates) provides investment advisory or other management services, provided such funds satisfy the criteria herein contained.

(e) Certificates of deposit secured at all times by collateral described in (a) and/or (b) above. Such certificates must be issued by commercial banks (including affiliates of the Trustee), savings and loan associations or mutual savings banks. The collateral must be held by a third party and the bondholders must have a perfected first security interest in the collateral.

(f) Certificates of deposit, savings accounts, deposit accounts or money market deposits (including those of the Trustee and its affiliates) which are fully insured by FDIC, including BIF and SAIF.

(g) Investment agreements, including guaranteed investment contracts, forward purchase agreements and reserve fund put agreements.

(h) Commercial paper rated, at the time of purchase, “Prime - 1” by Moody’s and “A-1” or better by S&P.

(i) Bonds or notes issued by any state or municipality which are rated by Moody’s and S&P in one of the two highest rating categories assigned by such agencies.

(j) Federal funds or bankers acceptances with a maximum term of one year of any bank (including those of the Trustee and its affiliates) which has an unsecured, uninsured and unguaranteed obligation rating of “Prime - 1” or “A3” or better by Moody’s and “A-1” or “A” or better by S&P.

(k) Repurchase agreements for 30 days or less must follow the following criteria. Repurchase agreements which provide for the transfer of securities from a dealer bank or securities firm (seller/borrower) to a municipal entity (buyer/lender), and the transfer of cash from a municipal entity to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the municipal entity in exchange for the securities at a specified date, and

1. Repurchase agreements must be between the municipal entity and a dealer bank or securities firm
 - A. Primary dealers on the Federal Reserve reporting dealer

list which are rated “A” or better by S&P and Moody’s,
or

B. Banks rated “A” or above by S&P and Moody’s.

2. The written repurchase agreements contract must include the following:

A. Securities which are acceptable for transfer are:

- (1) Direct United States governments, or
- (2) Federal agencies backed by the full faith and credit of the United States government (and FNMA & FHLMC)

B. The term of a repurchase agreement may be up to 30 days

C. The collateral must be delivered to the City, the Trustee (if the Trustee is not supplying the collateral) or third party acting as agent for the Trustee (if the Trustee is supplying the collateral) before/simultaneous with payment (perfection by possession of certificated securities).

D. Valuation of Collateral

- (1) The securities must be valued weekly, marked-to-market at current market price plus accrued interest
- (2) The value of collateral must be equal to 104% of the amount of cash transferred by the municipal entity to the dealer bank or security firm under the repo plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred by municipality, then additional cash and/or acceptable securities must be transferred. If, however, the securities used as collateral are FNMA or FHLMC, then the value of collateral must equal 105%.

3. A legal opinion must be delivered to the municipal entity to the effect that the repurchase agreement meets guidelines under state law for legal investment of public funds.

(1) Any state or county administered pool investment fund in which the Authority and/or the City, as applicable, is statutorily permitted or required to invest will be deemed a permitted investment, including, but not limited to the Local Agency Investment Fund in the treasury of the State.

“Principal Account” means the account by that name in the Revenue Fund established and held by the Trustee pursuant to Section 4.02(b)(2).

“Program Fund” means the fund by that name established and held by the Trustee pursuant to Section 3.03.

“Reassessment Bonds” means, collectively, the Reassessment 2005A Bonds and the Reassessment 2005B Bonds.

“Reassessment 2005A Bonds” means City’s Assessment District No. 2000-1 (Madrone Business Park), Limited Obligation Refunding Improvement Bonds, Series 2005A at any time outstanding under the Fiscal Agent Agreement.

“Reassessment 2005B Bonds” means City’s Assessment District No. 2000-1 (Madrone Business Park), Limited Obligation Refunding Improvement Bonds, Series 2005B (Taxable) at any time outstanding under the Fiscal Agent Agreement.

“Record Date” means, with respect to any Interest Payment Date, the 15th calendar day of the month immediately preceding such Interest Payment Date, whether or not such day is a Business Day.

“Redemption Account” means the account by that name in the Revenue Fund established and held by the Trustee pursuant to Section 4.02(b)(3).

“Registration Books” means the records maintained by the Trustee pursuant to Section 2.09 for the registration and transfer of ownership of the Bonds.

“Representation Letter” means a blanket representation letter from the Authority to the Depository, qualifying bonds issued by the Authority for the Depository’s book-entry system.

“Request” means a request in writing signed by any officer of the designated public entity duly authorized by its legislative body for that purpose.

“Reserve Account” means the account by that name in the Revenue Fund established and held by the Trustee pursuant to Section 4.02(b)(4).

“Reserve Requirement” means, as of any date of calculation, the least of (i) 10 percent of the proceeds of the sale of the Bonds (within the meaning of the Code), (ii) Maximum Annual Debt Service; or (iii) 125 percent of average Annual Debt Service over all Bond Years.

“Revenue Fund” means the fund by that name established and held by the Trustee pursuant to Section 4.02(a).

“Revenues” means (i) all amounts payable by the City on the Reassessment Bonds (other than administrative fees and expenses and indemnity against claims payable to the Authority or the Trustee, if any), (ii) any proceeds of the Bonds originally deposited with the Trustee and all moneys deposited and held from time to time by the Trustee in the funds and accounts established hereunder (other than the Rebate Fund), and (iii) income and gains with respect to the investment of amounts on deposit in the funds and accounts established hereunder (other than amounts that may be payable to the United States of America pursuant to Section 5.07).

“S&P” means Standard & Poor’s, a division of The McGraw Hill Companies, Inc., and its successors and assigns.

“Securities Depositories” means The Depository Trust Company, 55 Water Street, 50th Floor, New York, New York, 10041, Attention: Call Notification Department, Fax (212) 855-7232; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses or such other securities depositories as the Authority may designate in a Certificate of the Authority delivered to the Trustee.

“Series” means, when used when reference to the Bonds, all of the Bonds authenticated and delivered on original issuance and identified pursuant to this Indenture authorizing such Bonds as a separate series of Bonds, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to this Indenture.

“Series 2005A Bonds” means the Morgan Hill Financing Authority Reassessment Revenue Bonds, Series 2005A (Madrone Business Park) issued and at any time Outstanding hereunder.

“Series 2005B Bonds” means the Morgan Hill Financing Authority Reassessment Revenue Bonds, Series 2005B (Taxable) (Madrone Business Park) issued and at any time Outstanding hereunder.

“Series 2005A Program Account” means the account by that name within the Program Fund established and held by the Trustee pursuant to Section 3.03.

“Series 2005B Program Account” means the account by that name within the Program Fund established and held by the Trustee pursuant to Section 3.03.

“Series 2005A Cost of Issuance Fund” means the fund by that name established by Section 3.04(a).

“Series 2005B Cost of Issuance Fund” means the fund by that name established by Section 3.04(a).

“State” means the State of California.

“Supplemental Indenture” means any indenture, agreement or other instrument hereafter duly executed by the Authority and the Trustee in accordance with the provisions of Section 7.01.

“Tax Regulations” means temporary and permanent regulations promulgated under or with respect to Section 103 and Sections 141 through 150, inclusive, of the Code.

“Trust Office” means the corporate trust office of the Trustee at the address set forth in Section 11.13 or such other offices as may be specified to the Authority by the Trustee in writing. With respect to presentation of Bonds for payment or for registration of transfer and exchange such term shall mean the office or agency of the Trustee at which, at any particular time, its corporate trust business shall be conducted.

“Trustee” means The Bank of New York Trust Company, N.A. and its successors and assigns, and any other corporation or association which may at any time be substituted in its place as provided in Article VI.

“2004-05 Assessments” means the assessment installments paid during Fiscal Year 2004-05 by the owners of property in the Assessment District, as described in the City Reassessment Bond Resolution.

“Underwriter” means Piper Jaffray & Co., as the original underwriter for the Bonds.

Section 1.02. Rules of Construction. All references in this Indenture to “Articles,” “Sections,” and other subdivisions, unless indicated otherwise, are to the corresponding Articles, Sections or subdivisions of this Indenture; and the words “herein,” “hereof,” “hereunder,” and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or subdivision hereof.

Section 1.03. Authorization and Purpose of Bonds. The Authority has reviewed all proceedings heretofore taken relative to the authorization of the Bonds and has found, as a result of such review, and hereby finds and determines that all things, conditions, and acts required by law to exist, happen and be performed precedent to and in the issuance of the Bonds do exist, have happened and have been performed in due time, form and manner as required by law, and the Authority is now authorized under the Bond Law and each and every requirement of law, to issue the Bonds in the manner and form provided in this Indenture. The Authority hereby authorizes the issuance of the Bonds pursuant to the Bond Law and this Indenture for the purpose of acquiring the Reassessment Bonds.

Section 1.04. Equal Security. In consideration of the acceptance of the Bonds by the Owners thereof, this Indenture shall be deemed to be and shall constitute a contract among the Authority, the Trustee and the Owners of the Bonds; and the covenants and agreements herein set forth to be performed on behalf of the Authority shall be for the equal and proportionate benefit, security and protection of all Owners of the Bonds without preference, priority or distinction as to security or otherwise of any of the Bonds over any of the others by reason of the number or date thereof or the time of sale, execution or delivery thereof, or otherwise for any cause whatsoever, except as expressly provided therein or herein.

ARTICLE II

ISSUANCE OF BONDS

Section 2.01. Designation. The Bonds are authorized to be issued by the Authority under and subject to the Bond Law and the terms of this Indenture and shall be designated the “Morgan Hill Financing Authority, Reassessment Revenue Bonds, Series 2005A (Madrone Business Park)” in the original aggregate principal amount of \$_____, and the “Morgan Hill Financing Authority Reassessment Revenue Bonds, Series 2005B (Madrone Business Park) (Taxable)” in the original aggregate principal amount of \$_____.

Section 2.02. Terms of Bonds. The Series 2005A Bonds shall be dated as of the Closing Date, shall mature on the dates and in the amounts, and shall bear interest (calculated on the basis of a 360-day year of twelve 30-day months) at the rates, as follows:

<u>Maturity Date</u> <u>(September 2)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Maturity Date</u> <u>(September 2)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>
			[to come]		

The Series 2005B Bonds shall be dated as of the Closing Date, shall mature on the dates and in the amounts, and shall bear interest (calculated on the basis of a 360-day year of twelve 30-day months) at the rates, as follows:

<u>Maturity Date</u> <u>(September 2)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Maturity Date</u> <u>(September 2)</u> [to come]	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>
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The Bonds shall be delivered in fully registered form, numbered from one upwards in consecutive numerical order (with such alphabetical prefix as the Trustee shall determine). The Bonds of each Series shall be executed and delivered in the denominations of \$5,000 and any integral multiple thereof.

Each Bond shall bear interest from the Interest Payment Date next preceding the date of authentication thereof, unless (i) it is executed during the period from the day after the Record Date for an Interest Payment Date to and including such Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or (ii) it is executed on or prior to the Record Date for the first Interest Payment Date, in which event it shall bear interest from the Closing Date; provided, however, that if, at the time of registration of any Bond interest with respect to such Bond is in default, such Bond shall bear interest from the Interest Payment Date to which interest has been paid or made available for payment with respect to such Bond.

Interest with respect to any Bond shall be payable in lawful money of the United States of America on each Interest Payment Date to the Owner thereof as of the close of business on the Record Date, such interest to be paid by check or draft of the Trustee, mailed by first class mail no later than the Interest Payment Date to the Owner at his address as it appears, on such Record Date, on the Registration Books maintained by the Trustee; provided, however, that at the written request of the Owner of at least \$1,000,000 in aggregate principal amount of Outstanding Bonds of a Series filed with the Trustee prior to any Record Date, interest on such Bonds shall be paid to such Owner on each succeeding Interest Payment Date (unless such request has been revoked in writing) by wire transfer of immediately available funds to an account in the United States designated in such written request. Payments of defaulted interest with respect to the Bonds shall be paid by check or draft to the registered Owners of the Bonds as of a special record date to be fixed by the Trustee, notice of which special record date shall be given to the registered Owners of the Bonds not less than ten days prior thereto. The principal of and premium, if any, on the Bonds are payable when due upon surrender thereof at the Trust Office in lawful money of the United States of America.

Section 2.03. Redemption of Bonds.

(a) *Optional Redemption.* The Series 2005A Bonds maturing before September 2, [2010] are not subject to optional redemption by the Authority. The Series 2005A Bonds maturing on or after September 2, [2010] will be subject to redemption at the option of the Authority, as a whole or in part, in integral multiples of \$5,000 principal amount, by the Authority from proceeds derived from an optional redemption of the Reassessment 2005A Bonds by the City, on any Interest Payment Date on or

after March 2, [2010], at the following respective redemption prices (expressed as a percentage of the principal amount of the Bonds to be redeemed), plus accrued interest thereon to the date of redemption:

<u>Redemption Date</u>	<u>Redemption Price</u>
March 2, [2010] and September 2, [2010]	102%
March 2, [2011] and September 2, [2011]	
March 2, [2012] and thereafter	

The Series 2005B Bonds maturing before September 2, [2010] are not subject to optional redemption by the Authority. The Series 2005B Bonds maturing on or after September 2, [2010] will be subject to redemption at the option of the Authority, as a whole or in part, in integral multiples of \$5,000 principal amount, by the Authority from proceeds derived from an optional redemption of the Reassessment 2005A Bonds by the City, on any Interest Payment Date on or after March 2, [2010], at the following respective redemption prices (expressed as a percentage of the principal amount of the Bonds to be redeemed), plus accrued interest thereon to the date of redemption:

<u>Redemption Date</u>	<u>Redemption Price</u>
March 2, [2010] and September 2, [2010]	102%
March 2, [2011] and September 2, [2011]	
March 2, [2012] and thereafter	

(b) *Extraordinary Mandatory Redemption upon Redemption of Reassessment Bonds.* Notwithstanding the provisions of subsection (a) above, the Series 2005A Bonds are subject to extraordinary mandatory redemption on any Interest Payment Date prior to their respective maturity dates from moneys received by the Authority as the redemption price for Reassessment 2005A Bonds which may be redeemed pursuant to a prepayment of Reassessments as provided in Sections 2.03, 3.04(d) and 3.04(e) of the Fiscal Agent Agreement. Such redemption may be as a whole or in part, among maturities, provided that the debt service on the Series 2005A Bonds that will remain Outstanding following such redemption shall be as close to equal as possible to (but in no event greater than) the debt service on the Reassessment 2005A Bonds which will remain Outstanding after the redemption. In the event of such an extraordinary mandatory redemption, the Series 2005A Bonds shall be redeemed at the following respective redemption prices (expressed as a percentage of the principal amount of the Series 2005A Bonds to be redeemed), plus accrued interest thereon to the date of redemption:

<u>Redemption Dates</u>	<u>Redemption Price</u>
Prior to March 2, [2010]	103%
March 2, [2010] and September 2, [2010]	
March 2, [2011] and September 2, [2011]	
March 2, [2012] and thereafter	

Notwithstanding the provisions of subsection (a) above, the Series 2005B Bonds are subject to extraordinary mandatory redemption on any Interest Payment Date prior to their respective maturity dates from moneys received by the Authority as the redemption price for Reassessment 2005B Bonds which may be redeemed pursuant to a prepayment of Reassessments as provided in Sections 2.03, 3.04(d) and 3.04(e) of the Fiscal Agent Agreement. Such redemption may be as a whole or in part, among maturities,

provided that the debt service on the Series 2005B Bonds that will remain Outstanding following such redemption shall be as close to equal as possible to (but in no event greater than) the debt service on the Reassessment 2005B Bonds which will remain Outstanding after the redemption. In the event of such an extraordinary mandatory redemption, the Series 2005B Bonds shall be redeemed at the following respective redemption prices (expressed as a percentage of the principal amount of the Series 2005B Bonds to be redeemed), plus accrued interest thereon to the date of redemption:

<u>Redemption Dates</u>	<u>Redemption Price</u>
Prior to March 2, [2010]	103%
March 2, [2010] and September 2, [2010]	
March 2, [2011] and September 2, [2011]	
March 2, [2012] and thereafter	

(c) *Mandatory Sinking Fund Redemption.* The Series 2005A Bonds maturing on September 2, 20__ and September 2, 20__ are subject to redemption in part by lot from sinking fund payments made by the Authority, at a redemption price equal to the principal amount thereof to be redeemed with accrued interest thereon to the redemption date, without premium, in the aggregate respective principal amounts and on the respective dates as set forth in the following tables; provided, however, if some but not all of the term Series 2005A Bonds of a maturity have been redeemed pursuant to an optional redemption as provided in Section 2.03(a) or an extraordinary mandatory redemption as provided in Section 2.03(b), all future sinking fund payment with respect to such term Series 2005A Bonds will be reduced, to be allocated among such sinking fund payments on a pro rata basis (as nearly as practicable) in integral multiples of \$5,000:

Series 2005A Bonds Maturing on September 2, 20__

<u>Redemption Date</u>	<u>Principal Amount to be Redeemed</u>
------------------------	--

* maturity

Series 2005A Bonds Maturing on September 2, 20__

<u>Redemption Date</u>	<u>Principal Amount to be Redeemed</u>
------------------------	--

* maturity

The Series 2005B Bonds maturing on September 2, 20__ and September 2, 20__ are subject to redemption in part by lot from sinking fund payments made by the Authority, at a redemption price equal to the principal amount thereof to be redeemed with accrued interest thereon to the redemption date, without premium, in the aggregate respective principal amounts and on the respective dates as set forth in the following tables; provided, however, if some but not all of the term Series 2005B Bonds of a maturity have been redeemed pursuant to an optional redemption as provided in Section 2.03(b) or an extraordinary mandatory redemption as provided in Section 2.03(b), all future sinking fund payment with respect to such term Series 2005B Bonds will be reduced, to be allocated among such sinking fund payments on a pro rata basis (as nearly as practicable) in integral multiples of \$5,000:

Series 2005B Bonds Maturing on September 2, 20__

<u>Redemption Date</u>	<u>Principal Amount to be Redeemed</u>
------------------------	--

* maturity

Series 2005B Bonds Maturing on September 2, 20__

<u>Redemption Date</u>	<u>Principal Amount to be Redeemed</u>
------------------------	--

* maturity

In lieu of a sinking account redemption as described above, the Trustee may apply amounts in the Principal Account to purchase term Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as may be directed by the Authority, except that the purchase price (exclusive of accrued interest) may not exceed the redemption price then applicable to such term Bonds, as set forth in writing by the Authority; provided, however, that no term Bonds will be so purchased by the Trustee with a settlement date more than 60 days prior to the date on which the Authority would otherwise redeem such term Bonds. The principal amount of any term Bonds so purchased by the Trustee will be credited

towards and shall reduce the Principal Account payment otherwise required to be made with respect to such term Bonds on the applicable redemption date.

(d) *Notice of Redemption.* The Authority shall provide written notice to the Trustee of any redemption pursuant to this Section 2.03 at least 45 but not more than 90 days prior to the date fixed for such redemption.

The Trustee on behalf and at the expense of the Authority shall mail (by first class mail) notice of any redemption to the respective Owners of any Bonds designated for redemption at their respective addresses appearing on the Registration Books, and to the Securities Depositories and to one or more Information Services, at least 30 but not more than 60 days prior to the date fixed for redemption; provided, however, that neither failure to receive any such notice so mailed nor any defect therein shall affect the validity of the proceedings for the redemption of such Bonds or the cessation of the accrual of interest thereon. Such notice shall state the date of the notice, the redemption date, the redemption place and the redemption price and shall designate the CUSIP numbers, the Bond numbers (but only if less than all of the Outstanding Bonds are to be redeemed) and the maturity or maturities (in the event of redemption of all of the Bonds of such maturity or maturities in whole) of the Bonds to be redeemed, and shall require that such Bonds be then surrendered to the Trustee for redemption at the redemption price, giving notice also that further interest on such Bonds will not accrue from and after the redemption date.

(e) *Selection of Bonds for Redemption.* Whenever provision is made in this Indenture for the redemption of less than all of the Bonds of a Series of any maturity, the Trustee shall select the Bonds to be redeemed from all Bonds of such Series not previously called for redemption, by lot in any manner which the Trustee in its sole discretion shall deem appropriate under the circumstances. For purposes of such selection, all Bonds of such Series shall be deemed to be comprised of separate \$5,000 portions and such portions shall be treated as separate bonds which may be separately redeemed.

(f) *Partial Redemption of Bonds.* In the event only a portion of any Bond is called for redemption, then upon surrender of such Bond the Authority shall execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the Authority, a new Bond or Bonds of the same Series, tenor and maturity date, of authorized denominations in aggregate principal amount equal to the unredeemed portion of the Bond to be redeemed.

(g) *Effect of Redemption.* From and after the date fixed for redemption, if funds available for the payment of the principal of, interest on and premium, if any, on the Bonds so called for redemption shall have been duly provided, such Bonds so called shall cease to be entitled to any benefit under this Indenture other than the right to receive payment of the redemption price, and no interest shall accrue thereon from and after the redemption date specified in such notice. All Bonds redeemed pursuant to this Section shall be destroyed.

Section 2.04. Form of Bonds. The form of the Series 2005A Bonds and the Series 2005B Bonds to be issued under this Indenture, the form of Trustee's certificate of authentication, and the form of assignment to appear thereon, shall be substantially in the respective forms set forth in Exhibit A and Exhibit B attached hereto and by this reference incorporated herein, with necessary or appropriate variations, omissions and insertions, as permitted or required by this Indenture.

Section 2.05. Execution of Bonds. The Bonds shall be signed in the name and on behalf of the Authority with the manual or facsimile signatures of its President or its Vice President and attested with the manual or facsimile signature of its Secretary or any deputy duly appointed by the Authority Commission, and shall be delivered to the Trustee for authentication by it. In case any officer of the Authority who shall have signed any of the Bonds shall cease to be such officer before the Bonds so signed shall have been authenticated or delivered by the Trustee or issued by the Authority, such Bonds

may nevertheless be authenticated, delivered and issued and, upon such authentication, delivery and issue, shall be as binding upon the Authority as though the individual who signed the same had continued to be such officer of the Authority. Also, any Bond may be signed on behalf of the Authority by any individual who on the actual date of the execution of such Bond shall be the proper officer although on the nominal date of such Bond such individual shall not have been such officer.

Only such of the Bonds as shall bear thereon a certificate of authentication in substantially the form set forth in Exhibit A and Exhibit B hereto, manually executed by the Trustee, shall be valid or obligatory for any purpose or entitled to the benefits of this Indenture, and such certificate of the Trustee shall be conclusive evidence that the Bonds so authenticated have been duly authenticated and delivered hereunder and are entitled to the benefits of this Indenture.

Section 2.06. Transfer of Bonds. Any Bond may, in accordance with its terms, be transferred, upon the Registration Books, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer in a form acceptable to the Trustee, duly executed. Whenever any Bond shall be surrendered for transfer, the Authority shall execute and the Trustee shall thereupon authenticate and deliver to the transferee a new Bond or Bonds of like Series, tenor, maturity and aggregate principal amount. The cost of printing any Bonds and any services rendered or expenses incurred by the Trustee in connection with any such transfer shall be paid by the Authority, except that the Trustee shall require the payment by the Owner requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer. The Trustee shall not be required to transfer, pursuant to this Section 2.06, either (i) any Bond during the period established by the Trustee for the selection of Bonds for redemption, or (ii) any Bond selected for redemption pursuant to Section 2.03.

Section 2.07. Exchange of Bonds. Bonds may be exchanged at the Trust Office for the same aggregate principal amount of Bonds of the same tenor, maturity, and Series of any other authorized denominations. The cost of printing any Bonds and any services rendered or expenses incurred by the Trustee in connection with any such exchange shall be paid by the Authority, except that the Trustee shall require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange. The Trustee shall not be required to exchange, pursuant to this Section 2.07, either (i) any Bond during the period established by the Trustee for the selection of Bonds for redemption, or (ii) any Bond selected for redemption pursuant to Section 2.03.

Section 2.08. Temporary Bonds. The Bonds may be issued initially in temporary form exchangeable for definitive Bonds when ready for delivery. The temporary Bonds may be printed, lithographed or typewritten, shall be of such denominations as may be determined by the Authority and may contain such reference to any of the provisions of this Indenture as may be appropriate. Every temporary Bond shall be executed by the Authority and be registered and authenticated by the Trustee upon the same conditions and in substantially the same manner as the definitive Bonds; provided that any temporary Bond need only be signed in the name and on behalf of the Authority with the manual or facsimile signature of the Secretary, or any deputy duly appointed by the Authority Commission, and need not be attested. If the Authority issues temporary Bonds, it will execute and furnish definitive Bonds without delay, and thereupon the temporary Bonds shall be surrendered, for cancellation, in exchange therefor at the Trust Office of the Trustee in Los Angeles, California (or such other location designated by the Trustee), and the Trustee shall authenticate and deliver in exchange for such temporary Bonds definitive Bonds of like Series, tenor, maturity and aggregate principal amount in authorized denominations. Until so exchanged, the temporary Bonds shall be entitled to the same benefits under this Indenture as definitive Bonds authenticated and delivered hereunder.

Section 2.09. Registration Books. The Trustee will keep or cause to be kept at its Trust Office sufficient records for the registration and transfer of the Bonds, which shall at all times during

regular business hours be open to inspection by the Authority with reasonable prior notice; and, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such records, Bonds as hereinbefore provided.

Section 2.10. Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond shall become mutilated, the Authority, at the expense of the Owner of such Bond, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like Series, tenor, maturity and aggregate principal amount in authorized denomination in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Trustee shall be cancelled by it and destroyed. If any Bond issued hereunder shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence be satisfactory to the Trustee and indemnity satisfactory to the Trustee shall be given, the Authority, at the expense of the Owner, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like Series and tenor in lieu of and in substitution for the Bond so lost, destroyed or stolen (or if any such Bond shall have matured or shall have been called for redemption, instead of issuing a substitute Bond the Trustee may pay the same without surrender thereof upon receipt of indemnity satisfactory to the Trustee). The Trustee may require payment of a reasonable fee for each new Bond issued under this Section 2.10 and of the expenses which may be incurred by the Authority and the Trustee. Any Bond issued under the provisions of this Section 2.10 in lieu of any Bond alleged to be lost, destroyed or stolen shall constitute an original contractual obligation on the part of the Authority whether or not the Bond alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and shall be equally and proportionately entitled to the benefits of this Indenture with all other Bonds secured by this Indenture.

ARTICLE III

DEPOSIT AND APPLICATION OF PROCEEDS OF BONDS; ISSUANCE OF BONDS

Section 3.01. Issuance of Bonds. Upon the execution and delivery of this Indenture, the Authority shall execute and deliver Bonds in the aggregate principal amount set forth herein and shall deliver the Bonds to the Trustee for authentication and delivery to the original purchaser thereof upon the Request of the Authority.

Section 3.02. Application of Proceeds of Sale of Bonds.

(a) *Series 2005A Bonds.* Upon the receipt of the proceeds of the Series 2005A Bonds on the Closing Date in the amount of \$_____, the Trustee shall deposit such proceeds as follows:

(i) Deposit in the Series 2005A Cost of Issuance Fund the amount of \$_____;

(ii) Deposit in the Reserve Account the amount of \$_____; and

(iii) Deposit in the Series 2005A Program Account of the Program Fund the amount of \$_____, being the remaining proceeds of the Series 2005A Bonds, for the purchase of Reassessment 2005A Bonds.

(b) *Series 2005B Bonds.* Upon the receipt of the proceeds of the Series 2005B Bonds on the Closing Date in the amount of \$_____, the Trustee shall deposit such proceeds as follows:

(i) Deposit in the Series 2005B Cost of Issuance Fund the amount of \$ _____;

(ii) Deposit in the Reserve Account the amount of \$ _____; and

(iii) Deposit in the Series 2005B Program Account of the Program Fund the amount of \$ _____, being the remaining proceeds of the Series 2005B Bonds, for the purchase of Reassessment Series 2005B Bonds.

Section 3.03. Program Fund. The Trustee shall establish and maintain a separate fund to be known as the "Program Fund." For each Series of Bonds issued hereunder, the Trustee shall establish, maintain, and hold an account within the Program Fund designated the "Series 2005A Program Account" and the "Series 2005B Program Account" into which shall be deposited the proceeds of sale of the Bonds pursuant to Section 3.02. The Trustee shall transfer the full amount on deposit in the Program Fund on the Closing Date to the Fiscal Agent for the purchase of the Reassessment Bonds.

Section 3.04. Cost of Issuance Funds.

(a) *Establishment of Funds*. The Trustee shall establish and maintain a separate fund to be known as the "Series 2005A Cost of Issuance Fund" into which shall be deposited the proceeds of the sale of the Series 2005A Bonds pursuant to Section 3.02(a) and shall establish and maintain a separate fund to be known as the "Series 2005B Cost of Issuance Fund" into which shall be deposited the proceeds of the sale of the Series 2005B Bonds pursuant to Section 3.02(a). Moneys in the Series 2005A Cost of Issuance Fund and the Series 2005B Cost of Issuance Fund shall be held in trust by the Trustee and shall be disbursed as provided in subsection (b) of this Section for the payment or reimbursement of Costs of Issuance.

(b) *Disbursement*. Amounts in the Series 2005A Cost of Issuance Fund shall be disbursed to pay Costs of Issuance in connection with the Series 2005A Bonds and amounts in the Series 2005B Cost of Issuance Fund shall be disbursed to pay Costs of Issuance in connection with the Series 2005B Bonds, as set forth in a Request of the Authority containing respective amounts to be paid to the designated payees delivered to the Trustee concurrently with the delivery of the Bonds. The Trustee shall, to the extent of the moneys on deposit in the Series 2005A Cost of Issuance Fund, pay all Costs of Issuance with respect to the Series 2005A Bonds and shall, to the extent of the moneys on deposit in the Series 2005B Cost of Issuance Fund, pay all Costs of Issuance with respect to the Series 2005B Bonds upon receipt of an invoice from any such payee which requests payment in an amount which is less than or equal to the amount set forth with respect to such payee in such request, or upon receipt of a Request of the Authority requesting payment of a Cost of Issuance not listed on the initial requisition delivered to the Trustee on the Closing Date. The Trustee is authorized to act on such a Request of the Authority without further inquiry, shall not be responsible for the accuracy of the statements contained therein, and shall be absolutely protected and incur no liability in relying on such a Request of the Authority. The Trustee shall maintain the Series 2005A Cost of Issuance Fund and the Series 2005B Cost of Issuance Fund for a period of ninety (90) days from the Closing Date and shall then transfer and deposit any moneys remaining therein, including any investment earnings thereon, to the Revenue Fund.

Section 3.05. Validity of Bonds. The validity of the authorization and issuance of the Bonds shall not be affected in any way by any proceedings taken by the City with respect to the application of the proceeds of the Reassessment Bonds or the validity or enforceability of the Reassessment Bonds, and the recital contained in the Bonds that the same are issued pursuant to the Bond Law shall be conclusive evidence of their validity and of the regularity of their issuance.

ARTICLE IV

REVENUES; FLOW OF FUNDS

Section 4.01. Pledge of Revenues; Assignment of Rights. Subject to the provisions of Section 6.03, the Bonds shall be secured by a first lien on and pledge (which shall be effected in the manner and to the extent hereinafter provided) of all of the Revenues and a pledge of all of the moneys in the Revenue Fund, the Interest Account, the Principal Account, the Redemption Account and the Reserve Account, including all amounts derived from the investment of such moneys. The Bonds shall be equally secured by a pledge, charge and lien upon the Revenues and such moneys without priority for number, date of Bonds, date of execution or date of delivery; and the payment of the interest on and principal of the Bonds and any premiums upon the redemption of any thereof shall be and are secured by an exclusive pledge, charge and lien upon the Revenues and such moneys. So long as any of the Bonds are Outstanding, the Revenues and such moneys shall not be used for any other purpose; except that out of the Revenues there may be apportioned such sums, for such purposes, as are expressly permitted by Section 4.02.

The Authority hereby transfers in trust and assigns to the Trustee, for the benefit of the Owners from time to time of the Bonds, all of the Revenues and all of the right, title and interest of the Authority in the Reassessment Bonds. The Trustee shall be entitled to and shall receive all of the Revenues, and any Revenues collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and shall forthwith be paid by the Authority to the Trustee. The Trustee also shall be entitled to and, subject to the provisions hereof, shall take all steps, actions and proceedings reasonably necessary in its judgment to enforce, either jointly with the Authority or separately, all of the rights of the Authority and all of the obligations of the City with respect to the Reassessment Bonds.

Section 4.02. Receipt, Deposit and Application of Revenues.

(a) *Deposit of Revenues in Revenue Fund.* All Revenues described in clause (i) of the definition thereof in Section 1.01 shall be promptly deposited by the Trustee upon receipt thereof in a special fund designated as the "Revenue Fund" which the Trustee shall establish, maintain and hold in trust hereunder.

(b) *Application of Revenues; Accounts.* On or before each Interest Payment Date, the Trustee shall transfer from the Revenue Fund and deposit into the following respective accounts (each of which the Trustee shall establish and maintain within the Revenue Fund), the following amounts in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

(1) Interest Account. On or before each Interest Payment Date, the Trustee shall deposit in the Interest Account an amount required to cause the aggregate amount on deposit in the Interest Account to equal the amount of interest coming due and payable on such Interest Payment Date on all Outstanding Bonds. No deposit need be made into the Interest Account if the amount contained therein is at least equal to the interest coming due and payable upon all Outstanding Bonds on the next succeeding Interest Payment Date. All moneys in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds redeemed prior to maturity). All amounts on deposit in the Interest Account on the first day of any Bond Year, to the extent not required to pay any interest then

having come due and payable on the Outstanding Bonds, shall be withdrawn therefrom by the Trustee and transferred to the City to be used for any lawful purpose of the City.

(2) Principal Account. On or before each date on which the principal of the Bonds shall be payable, the Trustee shall deposit in the Principal Account an amount required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of the Bonds coming due and payable on such date pursuant to Section 2.02. All moneys in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Bonds at the maturity thereof. All amounts on deposit in the Principal Account on the first day of any Bond Year, to the extent not required to pay the principal of any Outstanding Bonds then having come due and payable, shall be withdrawn therefrom and transferred to the City to be used for any lawful purpose of the City.

(3) Redemption Account. (A) At any time that the City shall redeem Reassessment 2005A Bonds pursuant to Section 2.03(b) of the Fiscal Agent Agreement pursuant to an optional redemption or an extraordinary mandatory redemption of the Reassessment 2005A Bonds, the Trustee shall deposit the Revenues derived from such redemption (except for the portion representing the accrued interest on the Reassessment Bonds, which portion shall be deposited in the Interest Account) in the "Series 2005A Subaccount" within the Redemption Account (which is hereby established). Moneys on deposit in the Series 2005A Subaccount of the Redemption Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal and redemption premium, if any, on the Series 2005A Bonds to be redeemed under Section 2.03(a) or 2.03(b) on their respective redemption dates, as directed by the Authority.

(B) At any time that the City shall redeem Reassessment 2005B Bonds pursuant to Section 2.03(b) of the Fiscal Agent Agreement pursuant to an optional redemption or an extraordinary mandatory redemption of the Reassessment 2005B Bonds, the Trustee shall deposit the Revenues derived from such redemption (except for the portion representing the accrued interest on the Reassessment Bonds, which portion shall be deposited in the Interest Account) in the "Series 2005B Subaccount" within the Redemption Account (which is hereby established). Moneys on deposit in the Series 2005B Subaccount of the Redemption Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal and redemption premium, if any, on the Series 2005B Bonds to be redeemed under Section 2.03(a) or 2.03(b) on their respective redemption dates, as directed by the Authority.

(4) Reserve Account. On the Closing Date, the Trustee shall make an initial deposit in the Reserve Account pursuant to Section 3.02. On or before each Interest Payment Date, the Trustee shall, after making the required deposits in the Principal Account, the Interest Account and the Redemption Account, deposit the remaining Revenues in the Reserve Account; provided, however, no such deposit need be made in the Reserve Account so long as there shall be on deposit an amount at least equal to the Reserve Requirement.

Except as otherwise expressly provided herein, all money in the Reserve Account shall be used and withdrawn by the Trustee solely for the purpose of replenishing the Interest Account, the Principal Account or the Redemption Account (but, with respect to the Redemption Account, only in connection with an extraordinary mandatory redemption described in Section 2.03(b)), in such order, in the event of any deficiency at any time in either of such accounts, or for the purpose of paying the interest on or principal of or redemption premiums, if any, on the Bonds in the event that no other money in the Revenue Fund is available therefor, or for the retirement of all Bonds then Outstanding. So long as the Authority is not in default hereunder, any amount in the Reserve Account in excess of the Reserve Requirement shall be transferred monthly to the Revenue Fund

Section 4.03. Investments. All moneys in any of the funds or accounts established with the Trustee pursuant to this Indenture shall be invested by the Trustee solely in Permitted Investments

pursuant to the written direction of the Authority given to the Trustee two Business Days in advance of the making of such investments. In the absence of any such direction from the Authority, the Trustee shall invest any such moneys in Permitted Investments described in Paragraph (d) of the definition thereof. Obligations purchased as an investment of moneys in any fund shall be deemed to be part of such fund or account.

All interest or gain derived from the investment of amounts in any of the funds or accounts (except for the Reserve Account) established hereunder shall be deposited in the fund or account from which such investment was made. All interest or gain derived from the investment of amounts in the Reserve Account shall be automatically transferred to the Revenue Fund. For purposes of acquiring any investments hereunder, the Trustee may commingle funds held by it hereunder. The Trustee may (but shall not be obligated to) act as principal or agent in the acquisition or disposition of any investment. The Trustee shall incur no liability for losses arising from any investments made at the direction of the Authority, or otherwise made pursuant to this Section.

The Trustee shall be entitled to rely conclusively upon the written instructions of the Authority directing investments in Permitted Investments as to the fact that each such investment is permitted by the laws of the State, and shall not be required to make further investigation with respect thereto. With respect to any restrictions set forth in the definition of Permitted Investments set forth in Section 1.01 which embody legal conclusions (e.g., the existence, validity and perfection of security interests in collateral), the Trustee shall be entitled to rely conclusively on an opinion of counsel or upon a representation of the provider of such Permitted Investment obtained at the Authority's or the City's expense.

Except as specifically provided in this Indenture, the Trustee shall not be liable to pay interest on any moneys received by it, but shall be liable only to account to the Authority and the City for earnings derived from funds that have been invested.

Section 4.04. Valuation and Disposition of Investments. For the purpose of determining the amount in any fund or account established hereunder, any investments credited to such fund or account shall be valued at least annually, on or before June 30, at the market value thereof.

Section 4.05. Deposit of Surplus Reassessment Bond Redemption Price. Upon receiving the redemption price for Reassessment Bonds which may be redeemed pursuant to the Fiscal Agent Agreement, the Trustee shall deposit in the Revenue Fund the amount, if any, by which the redemption price for the Reassessment Bonds which are being redeemed exceeds the redemption price to be paid for the redemption of the corresponding portion of the Bonds which will be redeemed pursuant to subsection Section 2.03(b) and utilize such amount as provided in Section 4.02.

ARTICLE V

COVENANTS OF THE AUTHORITY

Section 5.01. Punctual Payment. The Authority shall punctually pay or cause to be paid the principal, interest and premium, if any, to become due in respect of all the Bonds, in strict conformity with the terms of the Bonds and of this Indenture, according to the true intent and meaning thereof, but only out of Revenues and other assets pledged for such payment as provided in this Indenture.

Section 5.02. Extension of Payment of Bonds. The Authority shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of

any claims for interest by the purchase of such Bonds or by any other arrangement, and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default hereunder, to the benefits of this Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended. Nothing in this Section 5.02 shall be deemed to limit the right of the Authority to issue bonds or other obligations for the purpose of refunding any Outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of the Bonds.

Section 5.03. Against Encumbrances. The Authority shall not create, or permit the creation of, any pledge, lien, charge or other encumbrance upon the Revenues and other assets pledged or assigned under this Indenture while any of the Bonds are Outstanding, except the pledge and assignment created by this Indenture. Subject to this limitation, the Authority expressly reserves the right to enter into one or more other indentures for any of its corporate purposes, including other programs under the Bond Law, and reserves the right to issue other obligations for such purposes.

Section 5.04. Power to Issue Bonds and Make Pledge and Assignment. The Authority is duly authorized pursuant to law to issue the Bonds and to enter into this Indenture and to pledge and assign the Revenues, the Reassessment Bonds and other assets purported to be pledged and assigned, respectively, under this Indenture in the manner and to the extent provided in this Indenture. The Bonds and the provisions of this Indenture are and will be the legal, valid and binding special obligations of the Authority in accordance with their terms, and the Authority shall at all times, to the extent permitted by law, defend, preserve and protect said pledge and assignment of Revenues and other assets and all the rights of the Owners under this Indenture against all claims and demands of all persons whomsoever.

Section 5.05. Accounting Records and Financial Statements. The Trustee shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with corporate trust industry standards, in which complete and accurate entries shall be made of all transactions made by the Trustee relating to the proceeds of Bonds, the Revenues, the Reassessment Bonds and all funds and accounts established pursuant to this Indenture. Such books of record and account shall be available for inspection by the Authority and the City, during regular business hours with reasonable prior notice.

Section 5.06. No Additional Indebtedness. Except for the Bonds, the Authority shall not incur any indebtedness that will be payable out of the Revenues.

Section 5.07. Tax Covenants.

(a) The Authority covenants that, in order to maintain the exclusion from gross income for Federal income tax purposes of the interest on the Series 2005A Bonds, and for no other purpose, the Authority will satisfy, or take such actions as are necessary to cause to be satisfied, each provision of the Code necessary to maintain such exclusion. In furtherance of this covenant the Authority agrees to comply with such written instructions as may be provided by Bond Counsel.

(b) The Authority covenants that no part of the proceeds of the Series 2005A Bonds shall be used, directly or indirectly, to acquire any Investment Property which would cause the Series 2005A Bonds to become arbitrage bonds, as that term is defined in Section 148 of the Code, or under applicable Tax Regulations. In order to assure compliance with the rebate requirements of Section 148 of the Code, the Authority further covenants that it will pay or cause to be paid to the United States the amounts necessary to satisfy the requirements of Section 148(f) of the Code, and that it will establish such accounting procedures as are necessary to adequately determine, account for and pay over any such

amount required to be paid thereunder in a manner consistent with the requirements of Section 148 of the Code, such covenants to survive the defeasance of the Series 2005A Bonds.

(c) The Authority covenants that it will not take any action or omit to take any action, which action or omission, if reasonably expected on the date of initial execution and delivery of the Series 2005A Bonds, would result in a loss of exclusion from gross income for purposes of Federal income taxation, under Section 103 of the Code, of interest on the Series 2005A Bonds.

(d) The Authority covenants that it will not use or permit the use of any property financed with the proceeds of the Series 2005A Bonds by any person (other than a state or local governmental unit) in such manner or to such extent as would result in a loss of exclusion of the interest on the Series 2005A Bonds from gross income for Federal income tax purposes under Section 103 of the Code.

(e) Notwithstanding any provision of this Indenture, and except as provided below, the Authority covenants that none of the moneys contained in any of the funds or accounts created pursuant to this Indenture with respect to the Series 2005A Bonds shall be: (i) used in making loans guaranteed by the United States (or any agency or instrumentality thereof), (ii) invested directly or indirectly in a deposit or account insured by the Federal Deposit Insurance Corporation, National Credit Union Administration or any other similar Federally chartered corporation, or (iii) otherwise invested directly or indirectly in obligations guaranteed (in whole or in part) by the United States (or any agency or instrumentality thereof); provided, however, that the above restrictions do not apply to: (a) the investment on moneys held in the Revenue Fund or any other “bona fide debt service fund” as defined for purposes of Section 148 of the Code, (b) investment in direct obligations of the United States Treasury, (c) investment in obligations guaranteed by the Federal National Mortgage Association, Government National Mortgage Association, or the Federal Home Loan Mortgage Corporation, (d) investment in obligations issued pursuant to Section 21B(d)(3) of the Federal Home Loan Bank Act, as amended by Section 511(a) of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, (e) investments permitted under regulations issued pursuant to Section 149(b)(3)(B) of the Code, or (f) such other investments permitted under this Indenture as, in the opinion of Bond Counsel, do not jeopardize the exclusion from gross income for Federal income tax purposes of interest on the Series 2005A Bonds.

Section 5.08. Reassessment Bonds. The Trustee, as assignee of the Authority’s rights pursuant to Section 4.01, shall receive all amounts due from the City pursuant to the Reassessment Bonds and the Fiscal Agent Agreement and, subject to its rights hereunder, shall diligently enforce, and take all steps, actions and proceedings reasonably necessary for the enforcement of all of the obligations of the City with respect to the Reassessment Bonds.

The Authority, the Trustee and the City, as applicable, may at any time amend or modify the Reassessment Bonds or the Fiscal Agent Agreement, but only if the provisions of Article VIII of the Fiscal Agent Agreement are satisfied and (a) if the Trustee first obtains the written consent of the Owners of a majority in aggregate principal amount of the affected Bonds then Outstanding to such amendment or modification; provided, however, that no such amendment or modification shall (i) extend the maturity of or reduce the amount of interest or principal payments on the Reassessment Bonds, or otherwise alter or impair the obligation of the City to pay the principal, interest or prepayment premiums on the Reassessment Bonds at the time and place and at the rate and in the currency provided herein, without the express written consent of the Owner of each affected Bond, (ii) reduce the percentage of Bonds required for the written consent to any such modification or amendment thereof or hereof, or (iii) without its written consent thereto, modify any of the rights or obligations of the Trustee; or (b) without the consent of the Trustee or any of the Bond Owners, if such amendment or modification is for any one or more of the following purposes:

(i) to add to the covenants and agreements of the City contained in the Reassessment Bonds or Fiscal Agent Agreement or other covenants and agreements thereafter to be observed, or to limit or surrender any rights or power therein reserved to or conferred upon the City, so long as such limitation or surrender of such rights or powers shall not materially adversely affect the Owners of the Bonds, in the opinion of Bond Counsel filed with the Authority and the Trustee;

(ii) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in the Reassessment Bonds or the Fiscal Agent Agreement or in any other respect whatsoever as the City may deem necessary or desirable, provided under any circumstances that such modifications or amendments shall not materially adversely affect the interest of the Owners of the Bonds, in the opinion of Bond Counsel filed with the Authority and the Trustee; or

(iii) to amend any provision thereof relating to the Code, to any extent whatsoever but only if and to the extent such amendment will not adversely affect the exclusion from gross income for federal income tax purposes of interest on any of the Bonds under the Code, in the opinion of Bond Counsel filed with the Authority and the Trustee.

Nothing in this Section 5.08 shall prevent the City or the Authority from entering into any amendment or modification of the Reassessment Bond or Fiscal Agent Agreement which solely affects a particular Bond or Bonds all of the Owners of which shall have consented to such amendment or modification. The Trustee shall be entitled to rely upon the opinion of Bond Counsel stating that the requirements of this Section 5.08 have been met with respect to any amendment or modification of the Reassessment Bonds or the Fiscal Agent Agreement.

The Authority may sell all or a portion of the Reassessment Bonds upon written direction to the Trustee, so long as the proceeds of such sale are placed in an appropriate fund to pay debt service on the Bonds, and such proceeds are sufficient to discharge all of the Authority's obligations on the portion of the Bonds represented by Reassessment Bonds in the manner set forth in Section 11.03.

Section 5.09. Further Assurances. The Authority will adopt, make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Indenture, and for the better assuring and confirming unto the Owners of the Bonds the rights and benefits provided in this Indenture.

ARTICLE VI

THE TRUSTEE

Section 6.01. Appointment; Resignation or Removal.

(a) The Bank of New York Trust Company, N.A., a national banking association organized under the laws of the United States of America, having a corporate trust office in Los Angeles, California, is hereby appointed Trustee hereunder for the purpose of receiving all money which the Authority is required to deposit with the Trustee hereunder and to allocate, use and apply the same as provided herein and therein.

The Trustee is hereby authorized to pay the principal of and interest and redemption premium, if any, on the Bonds when duly presented for payment at maturity, or on redemption or purchase prior to maturity, and to cancel all Bonds upon payment thereof. The Trustee shall keep accurate records of all funds administered by it and of all Bonds paid and discharged.

(b) The Trustee may at any time resign by giving written notice to the Authority. Any successor trustee appointed hereunder shall give notice of such appointment to the Owners, which notice shall be mailed to the Owners at their addresses appearing in the registration books in the office of the Trustee. Upon receiving such notice of resignation, the Authority shall promptly appoint a successor Trustee by an instrument in writing. Any resignation or removal of the Trustee and appointment of a successor Trustee shall become effective only upon acceptance of appointment by the successor Trustee. If, within thirty (30) days after notice of the removal or resignation of the Trustee, no successor Trustee shall have been appointed and shall have accepted such appointment, the removed or resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee, which court may thereupon, after such notice, if any, as it may deem proper and prescribe and as may be required by law, appoint a successor Trustee having the qualifications required hereby.

(c) The Authority may at any time, but only prior to an Event of Default or after the curing or waiver of an Event of Default and only upon thirty (30) days written notice, at its sole discretion remove the Trustee initially appointed, and any successor thereto, and may appoint a successor or successors thereto; provided that any such successor shall be a bank, banking institution (state or federal) or trust company or corporation with a corporate trust office in California, having a combined capital (exclusive of borrowed capital) and surplus (or whose parent holding company has a combined capital (exclusive of borrowed capital) and surplus) of at least seventy-five million dollars (\$75,000,000), and subject to supervision or examination by federal or state authority. If such bank, banking institution or trust company or corporation publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of this section the combined capital and surplus of such bank, banking institution or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

Section 6.02. Duties. The duties and obligations of the Trustee shall be determined solely by the express provisions of this Indenture. The Trustee shall not be liable except for the performance of such duties and obligations as are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against the Trustee. The permissive right of the Trustee to do things enumerated in this Indenture shall not be construed as a duty and it shall not be answerable for other than its negligence or willful misconduct. In case an Event of Default has occurred and is continuing, the Trustee shall exercise such rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs. The Trustee may execute any of the trusts or powers hereof and perform the duties required of it hereunder by or through its attorneys, agents or receivers.

Section 6.03. Compensation. The Authority shall from time to time, subject to any agreement between the Authority and the Trustee then in force, pay to the Trustee compensation for its services rendered by it in the execution of the trusts hereby created and in the exercise and performance of any of the powers and duties hereunder of the Trustee, which compensation shall not be limited by any provision of law with respect to the compensation of a trustee of an express trust, and the Authority will reimburse the Trustee for all its advances (with interest on such advances at the maximum rate allowed by law) and expenditures, including but not limited to advances to and fees and expenses of independent accountants, counsel (including in-house counsel to the extent not duplicative of other counsel's work) and engineers or other experts employed by it, and reasonably required, in the exercise and performance of its powers and duties hereunder.

Section 6.04. Indemnification. The Authority shall indemnify and save the Trustee, its officers, employees, directors and agents harmless from and against all claims, losses, costs, expenses, liability and damages, including legal fees and expenses, arising out of (a) any breach of default on the

part of the Authority in the performance of any of its obligations under this Indenture or any related agreements or instruments and any other agreement, (b) the exercise and performance by the Trustee of any of its powers and duties hereunder, so long as such exercise and performance are permitted by and in compliance with the provisions hereof, or (c) the offering and sale of the Bonds or the distribution of any official statement or other offering circular utilized in connection with the sale of the Bonds; provided, that the Authority shall not be liable for actions caused by the Trustee's own negligence or willful misconduct or the negligence or willful misconduct of the Trustee's officers or agents. The Trustee's rights to indemnification and protection from liability hereunder and its rights to payment of its fees and expenses shall survive its resignation or removal and final payment or defeasance of the Bonds. The Trustee shall not be liable for the sufficiency of Revenues or other moneys required to be paid to it under the Indenture (except as provided in this Indenture), or its right to receive moneys pursuant to the Indenture.

Section 6.05. Liability of Trustee.

(a) The recitals of facts herein and in the Bonds contained shall be taken as statements of the Authority, and the Trustee shall assume no responsibility for the correctness of the same, or make any representations as to the validity or sufficiency of this Indenture or of the Bonds. In addition, the Trustee shall assume no responsibility with respect to this Indenture or the Bonds other than in connection with the duties or obligations assigned to or imposed upon the Trustee herein or in the Bonds. The Trustee shall, however, be responsible for its representations contained in its certificate of authentication on the Bonds. The Trustee shall not be liable in connection with the performance of its duties hereunder, except for its own negligence or willful misconduct. The Trustee may become an Owner of Bonds with the same rights it would have if it were not Trustee and, to the extent permitted by law, may act as depositary for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Bond Owners, whether or not such committee shall represent the Owners of a majority in principal amount of the Bonds then Outstanding.

(b) The Trustee shall not be responsible for the validity, genuineness or performance of any leases, contracts or other instruments at any time conveyed, mortgaged, hypothecated, pledged, assigned or transferred to it hereunder, or with respect to the obligation of the Authority to preserve and keep unimpaired the rights of the Authority under or concerning any such leases, contracts or other instruments. The Trustee does not assume any responsibility for the correctness or completeness of any information contained in any offering materials distributed in connection with the sale of the Bonds and makes no representations and shall have no responsibility for any official statement or other offering material prepared or distributed with respect to the Bonds. In accepting the trust hereby created, the Trustee acts solely as Trustee for the Owners and not in its individual capacity and all persons, including without limitation the Owners, the Authority, having any claim against the Trustee arising from this Indenture not attributable to the Trustee's negligence or willful misconduct shall look only to the funds and accounts held by the Trustee hereunder for payment except as otherwise specifically provided herein.

(c) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of any Owner pursuant to this Indenture unless the Trustee shall have received reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction.

(d) In the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture.

(e) The Trustee is not accountable for the use by the Authority of funds which the Trustee releases to the Authority or which such party otherwise receives, or for the adequacy or validity

of any collateral or security interest securing this Indenture or the Bonds. The Trustee has no obligation to incur individual financial or other liability or risk in performing any duty or in exercising any right hereunder.

(g) Except during the continuance of an Event of Default, the Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Indenture and no implied covenants or obligations shall be read into this Indenture against the Trustee.

(h) The Trustee shall not be deemed to have knowledge of any Event of Default other than a payment default hereunder unless the Trustee shall be specifically notified in writing of such default by the Authority or by the Owners of at least 25 percent in aggregate principal amount of Bonds then Outstanding and all notices or other instruments required by this Indenture to be delivered to the Trustee must, in order to be effective, be delivered at the Trust Office of the Trustee, and in the absence of such notice so delivered, the Trustee may conclusively assume there is no Event of Default except as aforesaid. The Trustee shall not be bound to ascertain or inquire as to the performance or observance by any other party of any of the terms conditions, covenants or agreements herein or in any of the documents executed in connection with the Bonds. Any action taken or omitted to be taken by the Trustee in good faith pursuant to this Indenture upon the request of authority or consent of any person who at the time of making such request or giving such authority or consent is the Owner of any Bond, shall be conclusive and binding upon all future Owners of the same Bond executed and delivered in exchange therefor or in place thereof.

(i) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of a majority in aggregate principal amount of the Outstanding Bonds relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under this Indenture.

(j) The Trustee shall not be considered in breach of or in default in its obligations hereunder or progress in respect thereto in the event of enforced delay ("unavoidable delay") in the performance of such obligations due to unforeseeable causes beyond its control and without its fault or negligence, including, but not limited to, Acts of God or of the public enemy or terrorists, acts of a government, acts of the other party, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, earthquakes, explosion, mob violence, riot, inability to procure or general sabotage or rationing of labor, equipment, facilities, sources or energy, material or supplies in the open market, litigation or arbitration involving a party or others relating to zoning or other governmental action or inaction pertaining to the project, malicious mischief, condemnation, and unusually severe weather or delays of suppliers or subcontractors due to such causes or any similar event and/or occurrences beyond the control of the Trustee; provided that, in the event of any such unavoidable delay under this paragraph, the Trustee notify the Authority in writing within five (5) business days after (i) the occurrence of the event giving rise to the unavoidable delay, (ii) the Trustee's actual knowledge of the impending unavoidable delay, or (iii) the Trustee's knowledge of sufficient facts under which a reasonable person would conclude the unavoidable delay will occur.

(k) The immunities and exceptions from liability of the Trustee as provided herein shall extend to its officers, directors, employees and agents and such immunities and exceptions and its right to payment of its fees and expenses shall survive its resignation or removal and the final payment and defeasance of the Bonds. Under no circumstances shall the Trustee be liable in its individual capacity for the obligations evidenced by the Bonds. The Trustee, in its individual or any other capacity, may become the Owner of any Bonds or other obligations of any party hereto with the same rights which it would have if not the Trustee and may act as a depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of owners

of Bonds, whether or not such committee shall represent the Owners of the majority in aggregate principal amount of the Bonds then Outstanding. Before taking or refraining from any action hereunder at the request or direction of the Owners, the Trustee may require that an indemnity bond satisfactory to the Trustee be furnished to it and be in full force and effect.

(l) Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, shall be the successor to the Trustee without the execution or filing of any paper or further act, anything herein to the contrary notwithstanding.

(m) No provision in this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability when performing its duties in accordance with this Indenture, or exercising of any of its rights or powers hereunder.

Section 6.06. Notice to Trustee. The Trustee shall be protected in acting upon any notice, indenture, request, consent, order, certificate, report, bond, opinion or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, who may be counsel to the Authority, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered hereunder in good faith and in accordance therewith.

The Trustee shall not be bound to recognize any person as the Owner of a Bond unless and until such Bond is submitted for inspection, if required, and such person is the registered owner of such Bond as shown on the registration books.

Whenever in the administration of its duties under this Indenture the Trustee shall deem it necessary or desirable that a matter be proven or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of bad faith on the part of the Trustee, be deemed to be conclusively proved and established by a Written Certificate of the Authority and such certificate shall be full warrant to the Trustee for any action taken or suffered under the provisions of this Indenture upon the faith thereof, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

ARTICLE VII MODIFICATION AND AMENDMENT OF THE INDENTURE

Section 7.01. Amendment Hereof. This Indenture and the rights and obligations of the Authority and of the Owners of the Bonds may be modified or amended at any time by a Supplemental Indenture which shall become binding upon adoption without consent of any Bond Owners, to the extent permitted by law but only for any one or more of the following purposes:

(a) To add to the covenants and agreements of the Authority in this Indenture contained, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or powers herein reserved to or conferred upon the Authority so long as such limitation or surrender of such rights or powers shall not materially adversely affect the Owners of the Bonds; or

(b) To make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in this Indenture, or in any other respect whatsoever as the Authority may deem necessary or desirable, provided under any circumstances that

such modifications or amendments shall either (i) conform to the original intention of the Authority, or (ii) not materially adversely affect the interests of the Owners of the Bonds in the reasonable judgment of the Authority; or

(c) To amend any provision hereof relating to the Code, to any extent whatsoever but only if and to the extent such amendment will not adversely affect the exclusion from gross income of interest on any of the Bonds under the Code, in the opinion of Bond Counsel.

Except as set forth in the preceding paragraphs of this Section 7.01, this Indenture and the rights and obligations of the Authority and of the Owners of the Bonds may only be modified or amended at any time by a Supplemental Indenture which shall become binding when the written consent of the Owners of a majority in aggregate principal amount of the affected Bonds then Outstanding are filed with the Trustee. No such modification or amendment shall (i) extend the maturity of or reduce the interest rate on any Bond or otherwise alter or impair the obligation of the Authority to pay the principal, interest or premiums, if any, at the time and place and at the rate and in the currency provided therein of any Bond without the express written consent of the Owner of such Bond or (ii) reduce the percentage of Bonds required for the written consent to any such amendment or modification. In no event shall any Supplemental Indenture modify any of the rights or obligations of the Trustee without its prior written consent.

Section 7.02. Effect of Supplemental Indenture. From and after the time any Supplemental Indenture becomes effective pursuant to this Article VII, this Indenture shall be deemed to be modified and amended in accordance therewith. The respective rights, duties and obligations of the parties hereto or thereto and all Owners of Outstanding Bonds, as the case may be, shall thereafter be determined, exercised and enforced subject in all respects to such modification and amendment, and all the terms and conditions of any Supplemental Indenture shall be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

Section 7.03. Endorsement or Replacement of Bonds after Amendment. After the effective date of any action taken as hereinabove provided, the Authority may determine that the Bonds shall bear a notation, by endorsement in form approved by the Authority, as to such action, and in that case upon demand of the Owner of any Bond Outstanding at such effective date and presentation of such Owner's Bond(s) for that purpose to the Trustee, a suitable notation as to such action shall be made on such Bond at the expense of the Authority. If the Authority shall so determine, new Bonds so modified as, in the opinion of the Authority, shall be necessary to conform to such Bond Owners' action shall be prepared and executed, and in that case upon demand of the Owner of any Bond Outstanding at such effective date such new Bonds shall be exchanged at the Trust Office of the Trustee, at the expense of the Authority, for Bonds then Outstanding, upon surrender of such Outstanding Bonds.

ARTICLE VIII

EVENTS OF DEFAULT AND REMEDIES

Section 8.01. Events of Default. The following events shall be Events of Default hereunder:

(a) Default in the due and punctual payment of the principal of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise.

(b) Default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable.

(c) Failure by the Authority to observe and perform any of the covenants, agreements or conditions on its part in this Indenture or in the Bonds contained, other than as referred to in the preceding Paragraphs (a) and (b), for a period of 30 days after written notice, specifying such a failure and requesting that it be remedied has been given to the Authority by the Trustee, or to the Authority and the Trustee by the Owners of a majority in aggregate principal amount of the Outstanding Bonds; provided, however, that if in the reasonable opinion of the Authority the failure stated in such notice can be corrected, but not within such 30 day period, such failure shall not constitute an Event of Default if corrective action is instituted by the Authority within such 30 day period and diligently pursued until such failure is corrected.

(d) The filing by the Authority of a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws or any other applicable law of the United States of America, or if a court of competent jurisdiction shall approve a petition, filed with or without the consent of the Authority, seeking reorganization under the federal bankruptcy laws or any other applicable law of the United States of America, or if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Authority or of the whole or any substantial part of its property.

Section 8.02. Remedies upon Event of Default. If any Event of Default shall occur, then, and in each and every such case during the continuance of such Event of Default, the Trustee may pursue any available remedy at law or in equity to enforce the payment of the principal of and interest and premium, if any, on the Bonds, and to enforce any rights of the Trustee under or with respect to the Reassessment Bonds and this Indenture.

If an Event of Default shall have occurred and be continuing and if requested to do so by the Owners of a majority in aggregate principal amount of Outstanding Bonds and indemnified as provided in Sections 6.02(l) and 8.07, the Trustee shall be obligated to exercise such one or more of the rights and powers conferred by this Article VIII, as the Trustee, being advised by counsel, shall deem most expedient in the interest of the Bond Owners.

No remedy by the terms of this Indenture conferred upon or reserved to the Trustee (or to the Owners) is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Trustee or to the Owners hereunder or now or hereafter existing at law or in equity; provided, however, that in no event shall payments of interest on, or principal of, the Bonds be subject to acceleration.

No delay or omission to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or acquiescence therein; such right or power may be exercised from time to time as often as may be deemed expedient.

Section 8.03. Application of Revenues and Other Funds after Default. All amounts received by the Trustee pursuant to any right given or action taken by the Trustee under the provisions of this Indenture shall be applied by the Trustee in the following order upon presentation of the several Bonds, and the stamping thereon of the amount of the payment if only partially paid, or upon the surrender thereof if fully paid -

First, to the payment of the fees, costs and expenses of the Trustee, including reasonable compensation to its agents, attorneys and counsel (including the allocated costs and disbursements of in-house counsel to the extent the services of such counsel are not duplicative of services provided by outside counsel); and

Second, to the payment of the whole amount of interest on and principal of the Bonds then due and unpaid, with interest on overdue installments of principal and interest to the extent permitted by law at the net effective rate of interest then borne by the Outstanding Bonds; provided, however, that in the event such amounts shall be insufficient to pay in full the full amount of such interest and principal, then such amounts shall be applied in the following order of priority:

(i) *first*, to the payment of all installments of interest on the Bonds then due and unpaid, on a pro rata basis in the event that the available amounts are insufficient to pay all such interest in full,

(ii) *second*, to the payment of principal of all installments of the Bonds then due and payable, on a pro rata basis in the event that the available amounts are insufficient to pay all such principal in full, and

(iii) *third*, to the payment of interest on overdue installments of principal and interest, on a pro rata basis in the event that the available amounts are insufficient to pay all such interest in full.

Section 8.04. Power of Trustee to Control Proceedings. In the event that the Trustee, upon the happening of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties hereunder, whether upon its own discretion or upon the request of the Owners of at least a majority in aggregate principal amount of the Bonds then Outstanding, it shall have full power, in the exercise of its discretion for the best interests of the Owners of the Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee shall not, unless there no longer continues an Event of Default, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of a majority in aggregate principal amount of the Outstanding Bonds hereunder opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation. Any suit, action or proceeding which any Owner of Bonds shall have the right to bring to enforce any right or remedy hereunder may be brought by the Trustee for the equal benefit and protection of all Owners of Bonds similarly situated and the Trustee is hereby appointed (and the successive respective Owners of the Bonds issued hereunder, by taking and holding the same, shall be conclusively deemed so to have appointed it) the true and lawful attorney-in-fact of the respective Owners of the Bonds for the purpose of bringing any such suit, action or proceeding and to do and perform any and all acts and things for an on behalf of the respective Owners of the Bonds as a class or classes, as may be necessary or advisable in the opinion of the Trustee as such attorney-in-fact.

Section 8.05. Appointment of Receivers. Upon the occurrence of an Event of Default hereunder, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and of the Bond Owners under this Indenture, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Revenues and other amounts pledged hereunder, pending such proceedings, with such powers as the court making such appointment shall confer.

Section 8.06. Non-Waiver. Nothing in this Article VIII or in any other provision of this Indenture, or in the Bonds, shall affect or impair the obligation of the Authority, which is absolute and unconditional, to pay the interest on and principal of the Bonds to the respective Owners of the Bonds at the respective dates of maturity, as herein provided, out of the Revenues and other moneys herein pledged for such payment.

A waiver of any default or breach of duty or contract by the Trustee or any Bond Owners shall not affect any subsequent default or breach of duty or contract, or impair any rights or remedies on any such subsequent default or breach. No delay or omission of the Trustee or any Owner of any of the Bonds to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or any acquiescence therein; and every power and remedy conferred upon the Trustee or Bond Owners by the Bond Law or by this Article VIII may be enforced and exercised, upon an Event of Default, from time to time and as often as shall be deemed expedient by the Trustee or the Bond Owners, as the case may be.

Section 8.07. Limitation on Rights and Remedies of Bond Owners. No Owner of any Bond issued hereunder shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon this Indenture, unless (i) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default; (ii) the Owners of a majority in aggregate principal amount of all the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name; (iii) said Owners shall have tendered to the Trustee indemnity reasonably acceptable to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; and (iv) the Trustee shall have refused or omitted to comply with such request for a period of 60 days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are hereby declared, in every case, to be conditions precedent to the exercise by any Owner of Bonds of any remedy hereunder; it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by his or their action to enforce any right under this Indenture, except in the manner herein provided, and that all proceedings at law or in equity to enforce any provision of this Indenture shall be instituted, had and maintained in the manner herein provided and for the equal benefit of all Owners of the Outstanding Bonds.

The right of any Owner of any Bond to receive payment of the principal of and interest and premium, if any, on such Bond as herein provided or to institute suit for the enforcement of any such payment, shall not be impaired or affected without the written consent of such Owner, notwithstanding the foregoing provisions of this Section or any other provision of this Indenture.

Section 8.08. Termination of Proceedings. In case the Trustee shall have proceeded to enforce any right under this Indenture by the appointment of a receiver or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely, then and in every such case, the Authority, the Trustee and the Owners shall be restored to their former positions and rights hereunder, respectively, with regard to the property subject to this Indenture, and all rights, remedies and powers of the Trustee shall continue as if no such proceedings had been taken.

ARTICLE IX

[RESERVED]

ARTICLE X

BOOK-ENTRY SYSTEM

Section 10.01 Book-Entry System; Limited Obligation of Authority. The Bonds shall be initially delivered in the form of a separate single fully registered Bond (which may be typewritten) for each of the maturities of the Bonds. Upon initial delivery, the ownership of each such Bond shall be registered in the registration books kept by the Trustee in the name of the Nominee as nominee of the Depository. Except as provided in Section 10.03, all of the Outstanding Bonds shall be registered in the registration books kept by the Trustee in the name of the Nominee.

With respect to Bonds registered in the registration books kept by the Trustee in the name of the Nominee, the Authority and the Trustee shall have no responsibility or obligation to any Participant or to any person on behalf of which such a Participant holds an interest in the Bonds. Without limiting the immediately preceding sentence, the Authority and the Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of the Depository, the Nominee, or any Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any Participant or any other person, other than an Owner as shown in the registration books kept by the Trustee, of any notice with respect to the Bonds, including any notice of redemption, (iii) the selection by the Depository and its Participants of the beneficial interests in the Bonds to be redeemed in the event the Bonds are redeemed in part, or (iv) the payment to any Participant or any other person, other than an Owner as shown in the registration books kept by the Trustee, of any amount with respect to principal of, premium, if any, or interest due with respect to the Bonds. The Authority and the Trustee may treat and consider the person in whose name each Bond is registered in the registration books kept by the Trustee as the holder and absolute owner of such Bond for the purpose of payment of principal, premium, if any, and interest with respect to such Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfers with respect to such Bond, and for all other purposes whatsoever. The Trustee shall pay all principal of, premium, if any, and interest due with respect to the Bonds only to or upon the order of the respective Owners, as shown in the registration books kept by the Trustee, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to satisfy and discharge fully the Authority's obligations with respect to payment of the principal, premium, if any, and interest due with respect to the Bonds to the extent of the sum or sums so paid. No person other than an Owner, as shown in the registration books kept by the Trustee, shall receive a Bond evidencing the obligation of the Authority to make payments of principal, premium, if any, and interest pursuant to this Indenture. Upon delivery by the Depository to the Trustee and the Authority of written notice to the effect that the Depository has determined to substitute a new nominee in place of the Nominee, and subject to the provisions herein with respect to Record Dates, the word Nominee in this Indenture shall refer to such new nominee of the Depository.

Section 10.02 Representation Letter. In order to qualify the Bonds for the Depository's book-entry system, the Authority has heretofore executed and delivered to such Depository a Representation Letter. In addition to the execution and delivery of the Representation Letter, the President, the Secretary and all other officers of the Authority are hereby authorized to take any other actions, not inconsistent with this Indenture, to qualify the Bonds for the Depository's book-entry program.

Section 10.03 Transfers Outside Book-Entry System. In the event (a) the Depository determines not to continue to act as securities depository for the Bonds, or (b) the Authority determines that the Depository shall no longer so act, then the Authority will discontinue the book-entry system with the Depository. If the Authority fails to identify another qualified securities depository to replace the Depository, then the Bonds so designated shall no longer be restricted to being registered in the registration books kept by the Trustee in the name of the Nominee, but shall be registered in whatever name or names persons transferring or exchanging Bonds shall designate, in accordance with the provisions of Sections 2.06, 2.07 and 2.09.

Section 10.04 Payments to the Nominee. Notwithstanding any other provisions of this Indenture to the contrary, so long as any Bond is registered in the name of the Nominee, all payments with respect to principal, premium, if any, and interest due with respect to such Bond and all notices with respect to such Bond shall be made and given, respectively, as provided in the Representation Letter or as otherwise instructed by the Depository.

Section 10.05 Initial Depository and Nominee. The initial Depository under this Article shall be The Depository Trust Company, New York, New York. The initial Nominee shall be Cede & Co., as Nominee of The Depository Trust Company, New York, New York.

ARTICLE XI

MISCELLANEOUS

Section 11.01. Limited Liability of Authority. Notwithstanding anything in this Indenture contained, the Authority shall not be required to advance any moneys derived from any source of income other than the Revenues for the payment of the principal of or interest on the Bonds, or any premiums upon the redemption thereof, or for the performance of any covenants herein contained (except to the extent any such covenants are expressly payable hereunder from the Revenues or otherwise from amounts payable on the Reassessment Bonds). The Authority may, however, advance funds for any such purpose, provided that such funds are derived from a source legally available for such purpose and may be used by the Authority for such purpose without incurring indebtedness.

The Bonds shall be revenue bonds, payable exclusively from the Revenues and other funds as provided in this Indenture. The general fund of the Authority is not liable, and the credit of the Authority is not pledged, for the payment of the interest and premium, if any, on or principal of the Bonds. The Owners of the Bonds shall never have the right to compel the forfeiture of any property of the Authority. The principal of and interest on the Bonds, and any premiums upon the redemption of any thereof, shall not be a legal or equitable pledge, charge, lien or encumbrance upon any property of the Authority or upon any of its income, receipts or revenues except the Revenues and other funds pledged to the payment thereof as in this Indenture provided.

Section 11.02. Benefits of Indenture Limited to Parties. Nothing in this Indenture, expressed or implied, is intended to give to any person other than the Authority, the Trustee, the City, and the Owners of the Bonds, any right, remedy or claim under or by reason of this Indenture. Any covenants, stipulations, promises or agreements in this Indenture contained by and on behalf of the Authority shall be for the sole and exclusive benefit of the Trustee, the City, and the Owners of the Bonds.

Section 11.03. Discharge of Indenture. If the Authority shall pay and discharge any or all of the Outstanding Bonds in any one or more of the following ways:

(a) By well and truly paying or causing to be paid the principal of and interest and premium, if any, on such Bonds, as and when the same become due and payable;

(b) By irrevocably depositing with the Trustee, in trust, at or before maturity, money which, together with the available amounts then on deposit in the funds and accounts established with the Trustee pursuant to this Indenture, is fully sufficient to pay such Bonds, including all principal, interest and premiums, if any; or

(c) By irrevocably depositing with the Trustee or any other fiduciary, in trust, non-callable Federal Securities in such amount as an Independent Accountant shall determine will, together with the interest to accrue thereon and available moneys then on deposit in the funds and accounts established with the Trustee pursuant to this Indenture, be fully sufficient to pay and discharge the indebtedness on such Bonds (including all principal, interest and redemption premiums) at or before their respective maturity dates; and if such Bonds are to be redeemed prior to the maturity thereof notice of such redemption shall have been mailed pursuant to Section 2.03(c) or provision satisfactory to the Trustee shall have been made for the mailing of such notice, then, at the Request of the Authority, and notwithstanding that any of such Bonds shall not have been surrendered for payment, the pledge of the Revenues and other funds provided for in this Indenture with respect to such Bonds, and all other pecuniary obligations of the Authority under this Indenture with respect to all such Bonds, shall cease and terminate, except only the obligation of the Authority to pay or cause to be paid to the Owners of such Bonds not so surrendered and paid all sums due thereon from amounts set aside for such purpose as aforesaid, and all expenses and costs of the Trustee. Any funds held by the Trustee following any payment or discharge of the Outstanding Bonds pursuant to this Section 11.03 and the payment of the Trustee's expenses and costs shall be paid over to the Authority.

Section 11.04. Successor Is Deemed Included in All References to Predecessor. Whenever in this Indenture or any Supplemental Indenture the Authority is named or referred to, such reference shall be deemed to include the successor to the powers, duties and functions, with respect to the management, administration and control of the affairs of the Authority, that are presently vested in the Authority, and all the covenants, agreements and provisions contained in this Indenture by or on behalf of the Authority shall bind and inure to the benefit of its successors whether so expressed or not.

Section 11.05. Content of Certificates. Every Certificate of the Authority with respect to compliance with a condition or covenant provided for in this Indenture shall include (i) a statement that the person or persons making or giving such Certificate have read such covenant or condition and the definitions herein relating thereto; (ii) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such Certificate are based; (iii) a statement that, in the opinion of the signers, they have made or caused to be made such examination or investigation as is necessary to enable them to express an informed opinion as to whether or not such covenant or condition has been complied with; and (iv) a statement as to whether, in the opinion of the signers, such condition or covenant has been complied with.

Any such certificate made or given by an officer of the Authority may be based, insofar as it relates to legal matters, upon a certificate or opinion of or representations by counsel, unless such officer knows that the certificate or opinion or representations with respect to the matters upon which his certificate may be based, as aforesaid, are erroneous, or in the exercise of reasonable care should have known that the same were erroneous. Any such certificate or opinion or representation made or given by counsel may be based, insofar as it relates to factual matters, on information with respect to which is in the possession of the Authority, or upon the certificate or opinion of or representations by an officer or officers of the Authority, unless such counsel knows that the certificate or opinion or representations with respect to the matters upon which his certificate, opinion or representation may be based, as aforesaid, are erroneous.

Section 11.06. Execution of Documents by Owners. Any request, consent or other instrument required by this Indenture to be signed and executed by Bond Owners may be in any number of concurrent writings of substantially similar tenor and may be signed or executed by such Bond Owners in person or by their agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, shall be sufficient for any purpose of this Indenture and shall be conclusive in favor of the Trustee and of the Authority if made in the manner provided in this Section 11.06.

The fact and date of the execution by any person of any such request, consent or other instrument or writing may be proved by the affidavit of a witness of such execution or by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the person signing such request, consent or other instrument or writing acknowledged to him the execution thereof.

The ownership of Bonds shall be proved by the Registration Books. Any request, consent or vote of the Owner of any Bond shall bind every future Owner of the same Bond and the Owner of any Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the Authority in pursuance of such request, consent or vote. In lieu of obtaining any demand, request, direction, consent or waiver in writing, the Trustee may call and hold a meeting of the Bond Owners upon such notice and in accordance with such rules and obligations as the Trustee considers fair and reasonable for the purpose of obtaining any such action.

Section 11.07. Disqualified Bonds. In determining whether the Owners of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under this Indenture, Bonds which are owned or held by or for the account of the City or the Authority (but excluding Bonds held in any employees' retirement fund) shall be disregarded and deemed not to be Outstanding for the purpose of any such determination, provided, however, only Bonds which a responsible officer of the Trustee actually knows to be so owned or held shall be disregarded.

Section 11.08. Waiver of Personal Liability. No officer, agent or employee of the Authority shall be individually or personally liable for the payment of the interest on or principal of the Bonds; but nothing herein contained shall relieve any such officer, agent or employee from the performance of any official duty provided by law.

Section 11.09. Partial Invalidity. If any one or more of the covenants or agreements, or portions thereof, provided in this Indenture on the part of the Authority (or of the Trustee) to be performed should be contrary to law, then such covenant or covenants, such agreement or agreements, or such portions thereof, shall be null and void and shall be deemed separable from the remaining covenants and agreements or portions thereof and shall in no way affect the validity of this Indenture or of the Bonds; but the Bond Owners shall retain all rights and benefits accorded to them under the Bond Law or any other applicable provisions of law. The Authority hereby declares that it would have entered into this Indenture and each and every other section, paragraph, subdivision, sentence, clause and phrase hereof and would have authorized the issuance of the Bonds pursuant hereto irrespective of the fact that any one or more sections, paragraphs, subdivisions, sentences, clauses or phrases of this Indenture or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

Section 11.10. Destruction of Cancelled Bonds. Whenever in this Indenture provision is made for the surrender to the Trustee of any Bonds which have been paid or cancelled pursuant to the provisions of this Indenture, the Trustee shall, as permitted by law, destroy such cancelled Bonds and, upon Request of the Authority, provide to the Authority a certificate of destruction duly executed by the Trustee, and the Authority shall be entitled to rely upon any statement of fact contained in such certificate

with respect to the destruction of any such Bonds therein referred to; provided, however, the Authority shall reimburse the Trustee for the Trustee's costs incurred in connection with the microfilming or the required permanent recording, if any, related thereto.

Section 11.11. Funds and Accounts. Any fund or account required by this Indenture to be established and maintained by the Authority or the Trustee may be established and maintained in the accounting records of the Authority or the Trustee, as the case may be, either as a fund or an account, and may, for the purpose of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account. All such records with respect to all such funds and accounts held by the Authority shall at all times be maintained in accordance with generally accepted accounting principles and all such records with respect to all such funds and accounts held by the Trustee shall be at all times maintained in accordance with corporate trust industry practices. Any fund or account required by this Indenture to be established and maintained by the Authority or the Trustee may be established and maintained in the form of multiple funds, accounts or sub-accounts therein.

Section 11.12. Payment on Business Days. Whenever in this Indenture any amount is required to be paid on a day which is not a Business Day, such payment shall be required to be made on the Business Day immediately following such day, provided that interest shall not accrue from and after such day.

Section 11.13. Notices. Any notice, request, complaint, demand or other communication under this Indenture shall be given by first class mail or personal delivery to the party entitled thereto at its address set forth below, or by telecopy or other form of telecommunication, confirmed by telephone at its number set forth below. Notice shall be effective either (i) upon transmission by telecopy or other form of telecommunication, (ii) 48 hours after deposit in the United States mail, postage prepaid, or (iii) in the case of personal delivery to any person, upon actual receipt. The Authority, the City or the Trustee may, by written notice to the other parties, from time to time modify the address or number to which communications are to be given hereunder.

If to the Authority:	Morgan Hill Financing Authority 17555 Peak Avenue Morgan Hill, California 95037 Attention: Chief Administrative Officer Fax: (408) 779-3117
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If to the City:	City of Morgan Hill 17555 Peak Avenue Morgan Hill, California 95037 Attention: City Manager Fax: (408) 779-3117
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If to the Trustee:	The Bank of New York Trust Company, N.A. 700 S. Flower Street, Suite 500 Los Angeles, CA 90017 Attention: Corporate Trust Fax: (213) 630-6210
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The Authority, the City and the Trustee may designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent.

The Trustee agrees to accept and act upon facsimile transmission of written instructions or directions pursuant to this Indenture; provided, however, that: (a) subsequent to such facsimile

transmission of written instructions, there shall be provided to the Trustee originally executed instructions or directions in a timely manner, (b) such originally executed instructions or directions by the Authority shall be signed by a person as may be designated and authorized to sign for the Authority and, (c) the Authority shall provide to the Trustee an incumbency certificate listing such designated persons and the Authority shall from time to time provide the Trustee updated incumbency certificates, as necessary or appropriate, reflecting persons who have been added or deleted from the listing.

Section 11.14. Unclaimed Moneys. Anything in this Indenture to the contrary notwithstanding, any moneys held by the Trustee in trust for the payment and discharge of any of the Bonds which remain unclaimed for two years after the date when such Bonds have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Trustee at such date, or for two years after the date of deposit of such moneys if deposited with the Trustee after said date when such Bonds become due and payable, shall, at the Request of the Authority, be repaid by the Trustee to the Authority, as its absolute property and free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the Authority for the payment of such Bonds; provided, however, that before making any such payment to the Authority, the Trustee shall, at the Request and at the expense of the Authority, cause to be mailed to the Owners of all such Bonds, at their respective addresses appearing on the Registration Books, a notice that said moneys remain unclaimed and that, after a date named in said notice, which date shall not be less than thirty (30) days after the date of mailing of such notice, the balance of such moneys then unclaimed will be returned to the Authority.

Section 11.15. Governing Law. This Agreement shall be construed and governed in accordance with the laws of the State of California.

Section 11.16 Execution in Counterparts. This Agreement may be executed in counterparts and each of said counterparts shall be deemed an original for all purposes of this Agreement. All of such counterparts taken together shall be deemed to be one and the same instrument.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the MORGAN HILL FINANCING AUTHORITY has caused this Indenture to be signed in its name by its duly authorized officer and THE BANK OF NEW YORK TRUST COMPANY, N.A., in token of its acceptance of the trust created hereunder, has caused this Indenture to be signed in its corporate name by its officer identified below, all as of the day and year first above written.

MORGAN HILL FINANCING AUTHORITY

By _____
Chief Administrative Officer

**THE BANK OF NEW YORK TRUST COMPANY,
N.A., as Trustee**

By _____
Authorized Officer

EXHIBIT A

[FORM OF SERIES 2005A BOND]

[Unless this certificate is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the Authority or its agent for registration of transfer, exchange, or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.]

UNITED STATES OF AMERICA
STATE OF CALIFORNIA
COUNTY OF SANTA CLARA

No. R-__

\$ _____

MORGAN HILL FINANCING AUTHORITY
REASSESSMENT REVENUE BOND
SERIES 2005A
(MADRONE BUSINESS PARK)

<u>RATE OF INTEREST</u>	<u>MATURITY DATE</u>	<u>ORIGINAL ISSUE DATE</u>	<u>CUSIP</u>
	September 2, 20__	_____, 2005	

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT:

The MORGAN HILL FINANCING AUTHORITY, a joint powers authority organized and existing under the laws of the State of California (the "Authority"), for value received, hereby promises to pay (but only out of the Revenues, as defined in the Indenture hereinafter referred to, and certain other moneys) to the Registered Owner identified above or registered assigns (the "Registered Owner"), on the Maturity Date identified above or any earlier redemption date, the Principal Amount identified above in lawful money of the United States of America; and to pay interest thereon at the Rate of Interest identified above in like money from the Interest Payment Date (as hereinafter defined) next preceding the date of authentication of this Series 2005A Bond (unless this Series 2005A Bond is authenticated on or before an Interest Payment Date and after the fifteenth calendar day of the month preceding such Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or unless this Series 2005A Bond is authenticated on or prior to August 15, 2005, in which event it shall bear interest from the Original Issue Date identified above; provided, however, that if, at the time of authentication of this Series 2005A Bond, interest is in default on this Series 2005A Bond, this Series 2005A Bond shall bear interest from the Interest Payment Date to which interest hereon has previously been paid or made available for payment), payable semiannually on March 2 and September 2 in each year, commencing September 2, 2005 (the "Interest Payment Dates") until payment of such Principal Amount in full. The Principal Amount hereof is payable upon presentation hereof upon maturity or earlier redemption at the

corporate trust office of The Bank of New York Trust Company, N.A. (the "Trustee") in Los Angeles, California or such other location as the Trustee may designate (the "Trust Office"). Interest hereon is payable by check or draft of the Trustee mailed by first class mail on each Interest Payment Date to the Registered Owner hereof at the address of the Registered Owner as it appears on the registration books of the Trustee as of the fifteenth calendar day of the month preceding such Interest Payment Date (except in the case of a Registered Owner of at least \$1,000,000 in aggregate principal amount, such payment may, at such Registered Owner's option, be made by wire transfer of immediately available funds in accordance with written instructions provided by such Registered Owner prior to the fifteenth calendar day of the month preceding such Interest Payment Date).

This Series 2005A Bond is one of a duly authorized issue of bonds of the Authority designated the "Morgan Hill Financing Authority Reassessment Revenue Bonds, Series 2005A (Madrone Business Park)" (the "Series 2005A Bonds"), limited in principal amount to \$_____ secured by an Indenture of Trust, dated as of February 1, 2005 (the "Indenture"), by and between the Authority and the Trustee. Reference is hereby made to the Indenture and all indentures supplemental thereto for a description of the rights thereunder of the owners of the Series 2005A Bonds, of the nature and extent of the Revenues (as that term is defined in the Indenture), of the rights, duties and immunities of the Trustee and of the rights and obligations of the Authority thereunder; and all of the terms of the Indenture are hereby incorporated herein and constitute a contract between the Authority and the Registered Owner hereof, and to all of the provisions of which Indenture the Registered Owner hereof, by acceptance hereof, assents and agrees. The Series 2005A Bonds are payable from and secured by Revenues on a parity with the Morgan Hill Financing Authority Reassessment Revenue Bonds, Series 2005B (Madrone Business Park) (Taxable) (the "Series 2005B Bonds"), which also have been issued pursuant to the Indenture.

The Series 2005A Bonds are authorized to be issued pursuant to the provisions of the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4, Chapter 5, Division 7, Title 1 of the Government Code of the State of California (the "Act"). The Series 2005A Bonds are special obligations of the Authority and, as and to the extent set forth in the Indenture, are payable solely from and secured by a first lien on and pledge of the Revenues and certain other moneys and securities held by the Trustee as provided in the Indenture. All of the Series 2005A Bonds and Series 2005B Bonds are equally secured by a pledge of, and charge and lien upon, all of the Revenues and such other moneys and securities, and the Revenues and such other moneys and securities constitute a trust fund for the security and payment of the principal of and interest on the Series 2005A Bonds and Series 2005B Bonds are. The full faith and credit of the Authority is not pledged for the payment of the principal of or interest or premium (if any) on the Series 2005A Bonds. The Series 2005A Bonds are not secured by a legal or equitable pledge of, or charge, lien or encumbrance upon, any of the property of the Authority or any of its income or receipts, except the Revenues and such other moneys and securities as provided in the Indenture.

The Series 2005A Bonds and the Series 2005B Bonds have been issued to provide funds to purchase from the City of Morgan Hill (the "City"), the City's Assessment District No. 2000-1 (Madrone Business Park), Limited Obligation Refunding Improvement Bonds, Series 2005A (the "Reassessment 2005A Bonds") and the City's Assessment District No. 2000-1 (Madrone Business Park), Limited Obligation Refunding Improvement Bonds, Series 2005B (Taxable) (the "Reassessment 2005B Bonds," and together with the Reassessment 2005A Bonds, the "Reassessment Bonds"), as more particularly described in the Indenture. The Reassessment Bonds have been issued by the City pursuant to a Fiscal Agent Agreement between the City and The Bank of New York Trust Company, N.A., as Fiscal Agent. Amounts payable by the City on the Reassessment Bonds have been assigned to the Trustee under the Indenture, and such amounts constitute the principal source of the Revenues which are pledged to the payment of the Series 2005A Bonds and the Series 2005B Bonds.

The Series 2005A Bonds maturing before September 2, [2010] are not subject to optional redemption by the Authority. The Series 2005A Bonds maturing on or after September 2, [2010] will be subject to redemption, as a whole or in part, in integral multiples of \$5,000 principal amount, on any Interest Payment Date on or after March 2, [2010], by the Authority from proceeds derived from an optional redemption of the Reassessment 2005A Bonds by the City, at the following respective redemption prices (expressed as a percentage of the principal amount of the Series 2005A Bonds to be redeemed), plus accrued interest thereon to the date of redemption:

<u>Redemption Date</u>	<u>Redemption Price</u>
March 2, [2010] and September 2, [2010]	%
March 2, [2011] and September 2, [2011]	
March 2, [2011] and thereafter	

The Series 2005A Bonds are also subject to extraordinary mandatory redemption on any Interest Payment Date prior to their respective maturity dates from moneys received by the Authority as the redemption prices for Reassessment 2005A Bonds pursuant to an extraordinary redemption of the Reassessment 2005A Bonds pursuant to the Fiscal Agent Agreement. Such redemption may be as a whole, or in part, among maturities such that the debt service on the Series 2005A Bonds which will remain outstanding following such redemption will be as close to equal as possible to (but in no event greater than) the debt service on the Reassessment 2005A Bonds which will remain outstanding following the redemption of the portion of the Reassessment 2005A Bonds being redeemed. In the event of such an extraordinary mandatory redemption, the Series 2005A Bonds will be redeemed at the following respective redemption prices (expressed as percentages of the principal amount of the Series 2005A Bonds to be redeemed), plus accrued interest thereon to the date of redemption:

<u>Redemption Dates</u>	<u>Redemption Price</u>
Prior to March 2, [2010]	103%
March 2, [2010] and September 2, [2010]	
March 2, [2011] and September 2, [2011]	
March 2, [2012] and thereafter	

The Series 2005A Bonds maturing on September 2, 20__ and September 2, 20__ are also subject to redemption in part by lot from sinking fund payments made by the Authority, on September 2 of each year commencing September 1, 20__ and September 1, 20__, respectively, in the aggregate principal amounts set forth in the Indenture, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest thereon to the redemption date, with no redemption premium.

The Trustee on behalf and at the expense of the Authority shall mail (by first class mail) notice of any redemption to the respective owners of any Series 2005A Bonds designated for redemption, at their respective addresses appearing on the registration books maintained by the Trustee, to the Securities Depositories and to one or more Information Services (as such terms are defined in the Indenture), at least 30 but not more than 60 days prior to the redemption date; provided, however, that neither failure to receive any such notice so mailed nor any defect therein shall affect the validity of the proceedings for the redemption of such Series 2005A Bonds or the cessation of the accrual of interest thereon. Such notice shall state the date of the notice, the redemption date, the redemption place and the redemption price and shall designate the CUSIP numbers, the serial numbers of each maturity or maturities (except that if the event of redemption is of all of the Series 2005A Bonds of such maturity or maturities in whole, the Trustee shall designate such maturities or the maturity in whole without referencing each individual

number) of the Series 2005A Bonds to be redeemed, and shall require that such Series 2005A Bonds be then surrendered at the Trust Office of the Trustee for redemption at the redemption price, giving notice also that further interest on such Series 2005A Bonds will not accrue after the redemption date.

Subject to the limitations and upon payment of the charges, if any, provided in the Indenture, this Series 2005A Bond may be exchanged at the Trust Office for a like aggregate principal amount and maturity of fully registered Series 2005A Bonds of other authorized denominations.

This Series 2005A Bond is transferable by the Registered Owner hereof, in person or by his attorney duly authorized in writing, at the Trust Office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Series 2005A Bond. Upon such transfer a new fully registered Series 2005A Bond or Series 2005A Bonds, of authorized denomination or denominations, for the same aggregate principal amount and of the same maturity will be issued to the transferee in exchange therefor. The Trustee shall not be required to register the transfer or exchange of any Series 2005A Bond during the 15-day period preceding the selection of Series 2005A Bonds for redemption or any Series 2005A Bond selected for redemption. The Authority and the Trustee may treat the Registered Owner hereof as the absolute owner hereof for all purposes, and the Authority and the Trustee shall not be affected by any notice to the contrary.

The Indenture and the rights and obligations of the Authority and of the owners of the Series 2005A Bonds and of the Trustee may be modified or amended from time to time and at any time in the manner, to the extent, and upon the terms provided in the Indenture; provided that no such modification or amendment shall (a) extend the maturity of or reduce the interest rate on any Series 2005A Bond or otherwise alter or impair the obligation of the Authority to pay the principal, interest or premiums at the time and place and at the rate and in the currency provided therein of any Series 2005A Bond without the express written consent of the owner of such Series 2005A Bond, (b) reduce the percentage of Series 2005A Bonds required for the written consent to any such amendment or modification, or (c) without its written consent thereto, modify any of the rights or obligations of the Trustee, all as more fully set forth in the Indenture.

It is hereby certified that all things, conditions and acts required to exist, to have happened and to have been performed precedent to and in the issuance of this Series 2005A Bond do exist, have happened and have been performed in due time, form and manner as required by the Constitution and statutes of the State of California and by the Act (as such term is defined on the reverse side hereof) and the amount of this Series 2005A Bond, together with all other indebtedness of the Authority, does not exceed any limit prescribed by the Constitution or statutes of the State of California or by the Act.

This Series 2005A Bond shall not be entitled to any benefit under the Indenture (as such term is defined on the reverse side hereof), or become valid or obligatory for any purpose, until the certificate of authentication hereon shall have been signed by the Trustee.

IN WITNESS WHEREOF, the Authority has caused this Series 2005A Bond to be executed in its name and on its behalf by the facsimile signatures of its President and Secretary all as of the Original Issue Date identified above.

MORGAN HILL FINANCING AUTHORITY

By _____
President

Attest:

Secretary

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This is one of the Series 2005A Bonds described in the within-mentioned Indenture and registered on the Bond Registration Books.

THE BANK OF NEW YORK TRUST
COMPANY, N.A.,
as Trustee

Date: _____

By _____
Authorized Signatory

=====

[FORM OF ASSIGNMENT]

For value received the undersigned do(es) hereby sell, assign and transfer unto _____ whose tax identification number is _____, the within-mentioned registered Bond and hereby irrevocably constitute(s) and appoint(s) attorney to transfer the same on the books of the Trustee with full power of substitution in the premises.

Dated: _____

Signature guaranteed:

NOTE: The signature(s) on this Assignment must correspond with the name(s) as written on the face of the within Bond in every particular without alteration or enlargement or any change whatsoever.

NOTE: Signature(s) must be guaranteed by a member of an institution which is a participant in the Securities Transfer Agent Medallion Program (STAMP) or other similar program.

=====

EXHIBIT B

[FORM OF SERIES 2005B BOND]

[Unless this certificate is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the Authority or its agent for registration of transfer, exchange, or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof, Cede & Co., has an interest herein.]

UNITED STATES OF AMERICA
STATE OF CALIFORNIA
COUNTY OF SANTA CLARA

No. R-__

\$ _____

MORGAN HILL FINANCING AUTHORITY
REASSESSMENT REVENUE BOND
SERIES 2005B
(MADRONE BUSINESS PARK)
(TAXABLE)

<u>RATE OF INTEREST</u>	<u>MATURITY DATE</u>	<u>ORIGINAL ISSUE DATE</u>	<u>CUSIP</u>
	September 2, 20__	_____, 2005	

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT:

The MORGAN HILL FINANCING AUTHORITY, a joint powers authority organized and existing under the laws of the State of California (the "Authority"), for value received, hereby promises to pay (but only out of the Revenues, as defined in the Indenture hereinafter referred to, and certain other moneys) to the Registered Owner identified above or registered assigns (the "Registered Owner"), on the Maturity Date identified above or any earlier redemption date, the Principal Amount identified above in lawful money of the United States of America; and to pay interest thereon at the Rate of Interest identified above in like money from the Interest Payment Date (as hereinafter defined) next preceding the date of authentication of this Series 2005B Bond (unless this Series 2005B Bond is authenticated on or before an Interest Payment Date and after the fifteenth calendar day of the month preceding such Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or unless this Series 2005B Bond is authenticated on or prior to August 15, 2005, in which event it shall bear interest from the Original Issue Date identified above; provided, however, that if, at the time of authentication of this Series 2005B Bond, interest is in default on this Series 2005B Bond, this Series 2005B Bond shall bear interest from the Interest Payment Date to which interest hereon has previously been paid or made available for payment), payable semiannually on March 2 and September 2 in each year, commencing September 2, 2005 (the "Interest Payment Dates") until payment of such Principal Amount in full. The

Principal Amount hereof is payable upon presentation hereof upon maturity or earlier redemption at the corporate trust office of The Bank of New York Trust Company, N.A. (the "Trustee") in Los Angeles, California or such other location as the Trustee may designate (the "Trust Office"). Interest hereon is payable by check or draft of the Trustee mailed by first class mail on each Interest Payment Date to the Registered Owner hereof at the address of the Registered Owner as it appears on the registration books of the Trustee as of the fifteenth calendar day of the month preceding such Interest Payment Date (except in the case of a Registered Owner of at least \$1,000,000 in aggregate principal amount, such payment may, at such Registered Owner's option, be made by wire transfer of immediately available funds in accordance with written instructions provided by such Registered Owner prior to the fifteenth calendar day of the month preceding such Interest Payment Date).

This Series 2005B Bond is one of a duly authorized issue of bonds of the Authority designated the "Morgan Hill Financing Authority Reassessment Revenue Bonds, Series 2005B (Madrone Business Park) (Taxable)" (the "Series 2005B Bonds"), limited in principal amount to \$_____ secured by an Indenture of Trust, dated as of February 1, 2005 (the "Indenture"), by and between the Authority and the Trustee. Reference is hereby made to the Indenture and all indentures supplemental thereto for a description of the rights thereunder of the owners of the Series 2005B Bonds, of the nature and extent of the Revenues (as that term is defined in the Indenture), of the rights, duties and immunities of the Trustee and of the rights and obligations of the Authority thereunder; and all of the terms of the Indenture are hereby incorporated herein and constitute a contract between the Authority and the Registered Owner hereof, and to all of the provisions of which Indenture the Registered Owner hereof, by acceptance hereof, assents and agrees. The Series 2005B Bonds are payable from and secured by Revenues on a parity with the Morgan Hill Financing Authority Reassessment Revenue Bonds, Series 2005A (the "Series 2005A Bonds"), which also have been issued pursuant to the Indenture.

The Series 2005B Bonds are authorized to be issued pursuant to the provisions of the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4, Chapter 5, Division 7, Title 1 of the Government Code of the State of California (the "Act"). The Series 2005B Bonds are special obligations of the Authority and, as and to the extent set forth in the Indenture, are payable solely from and secured by a first lien on and pledge of the Revenues and certain other moneys and securities held by the Trustee as provided in the Indenture. All of the Series 2005A Bonds and Series 2005B Bonds are equally secured by a pledge of, and charge and lien upon, all of the Revenues and such other moneys and securities, and the Revenues and such other moneys and securities constitute a trust fund for the security and payment of the principal of and interest on the Series 2005A Bonds and Series 2005B Bonds are. The full faith and credit of the Authority is not pledged for the payment of the principal of or interest or premium (if any) on the Series 2005B Bonds. The Series 2005B Bonds are not secured by a legal or equitable pledge of, or charge, lien or encumbrance upon, any of the property of the Authority or any of its income or receipts, except the Revenues and such other moneys and securities as provided in the Indenture.

The Series 2005A Bonds and the Series 2005B Bonds have been issued to provide funds to purchase from the City of Morgan Hill (the "City"), the City's Assessment District No. 2000-1 (Madrone Business Park), Limited Obligation Refunding Improvement Bonds, Series 2005A (the "Reassessment 2005A Bonds") and the City's Assessment District No. 2000-1 (Madrone Business Park), Limited Obligation Refunding Improvement Bonds, Series 2005B (Taxable) (the "Reassessment 2005B Bonds," and together with the Reassessment 2005A Bonds, the "Reassessment Bonds"), as more particularly described in the Indenture. The Reassessment Bonds have been issued by the City pursuant to a Fiscal Agent Agreement between the City and The Bank of New York Trust Company, N.A., as Fiscal Agent. Amounts payable by the City on the Reassessment Bonds have been assigned to the Trustee under the Indenture, and such amounts constitute the principal source of the Revenues which are pledged to the payment of the Series 2005A Bonds and the Series 2005B Bonds.

The Series 2005B Bonds maturing before September 2, [2010] are not subject to optional redemption by the Authority. The Series 2005B Bonds maturing on or after September 2, [2010] will be subject to redemption, as a whole or in part, in integral multiples of \$5,000 principal amount, on any Interest Payment Date on or after March 2, [2010], by the Authority from proceeds derived from an optional redemption of the Reassessment 2005B Bonds by the City, at the following respective redemption prices (expressed as a percentage of the principal amount of the Series 2005B Bonds to be redeemed), plus accrued interest thereon to the date of redemption:

<u>Redemption Date</u>	<u>Redemption Price</u>
March 2, [2010] and September 2, [2010]	102%
March 2, [2011] and September 2, [2011]	
March 2, [2011] and thereafter	

The Series 2005B Bonds are also subject to extraordinary mandatory redemption on any Interest Payment Date prior to their respective maturity dates from moneys received by the Authority as the redemption prices for Reassessment 2005B Bonds pursuant to an extraordinary redemption of the Reassessment 2005B Bonds pursuant to the Fiscal Agent Agreement. Such redemption may be as a whole, or in part, among maturities such that the debt service on the Series 2005B Bonds which will remain outstanding following such redemption will be as close to equal as possible to (but in no event greater than) the debt service on the Reassessment 2005B Bonds which will remain outstanding following the redemption of the portion of the Reassessment 2005B Bonds being redeemed. In the event of such an extraordinary mandatory redemption, the Series 2005B Bonds will be redeemed at the following respective redemption prices (expressed as percentages of the principal amount of the Series 2005B Bonds to be redeemed), plus accrued interest thereon to the date of redemption:

<u>Redemption Dates</u>	<u>Redemption Price</u>
Prior to March 2, [2010]	103%
March 2, [2010] and September 2, [2010]	
March 2, [2011] and September 2, [2011]	
March 2, [2012] and thereafter	

The Series 2005B Bonds maturing on September 2, 20__ and September 2, 20__ are also subject to redemption in part by lot from sinking fund payments made by the Authority, on September 2 of each year commencing September 1, 20__ and September 1, 20__, respectively, in the aggregate principal amounts set forth in the Indenture, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest thereon to the redemption date, with no redemption premium.

The Trustee on behalf and at the expense of the Authority shall mail (by first class mail) notice of any redemption to the respective owners of any Series 2005B Bonds designated for redemption, at their respective addresses appearing on the registration books maintained by the Trustee, to the Securities Depositories and to one or more Information Services (as such terms are defined in the Indenture), at least 30 but not more than 60 days prior to the redemption date; provided, however, that neither failure to receive any such notice so mailed nor any defect therein shall affect the validity of the proceedings for the redemption of such Series 2005B Bonds or the cessation of the accrual of interest thereon. Such notice shall state the date of the notice, the redemption date, the redemption place and the redemption price and shall designate the CUSIP numbers, the serial numbers of each maturity or maturities (except that if the event of redemption is of all of the Series 2005B Bonds of such maturity or maturities in whole, the Trustee shall designate such maturities or the maturity in whole without referencing each individual

number) of the Series 2005B Bonds to be redeemed, and shall require that such Series 2005B Bonds be then surrendered at the Trust Office of the Trustee for redemption at the redemption price, giving notice also that further interest on such Series 2005B Bonds will not accrue after the redemption date.

Subject to the limitations and upon payment of the charges, if any, provided in the Indenture, this Series 2005B Bond may be exchanged at the Trust Office for a like aggregate principal amount and maturity of fully registered Series 2005B Bonds of other authorized denominations.

This Series 2005B Bond is transferable by the Registered Owner hereof, in person or by his attorney duly authorized in writing, at the Trust Office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Series 2005B Bond. Upon such transfer a new fully registered Series 2005B Bond or Series 2005B Bonds, of authorized denomination or denominations, for the same aggregate principal amount and of the same maturity will be issued to the transferee in exchange therefor. The Trustee shall not be required to register the transfer or exchange of any Series 2005B Bond during the 15-day period preceding the selection of Series 2005B Bonds for redemption or any Series 2005B Bond selected for redemption. The Authority and the Trustee may treat the Registered Owner hereof as the absolute owner hereof for all purposes, and the Authority and the Trustee shall not be affected by any notice to the contrary.

The Indenture and the rights and obligations of the Authority and of the owners of the Series 2005B Bonds and of the Trustee may be modified or amended from time to time and at any time in the manner, to the extent, and upon the terms provided in the Indenture; provided that no such modification or amendment shall (a) extend the maturity of or reduce the interest rate on any Series 2005B Bond or otherwise alter or impair the obligation of the Authority to pay the principal, interest or premiums at the time and place and at the rate and in the currency provided therein of any Series 2005B Bond without the express written consent of the owner of such Series 2005B Bond, (b) reduce the percentage of Series 2005B Bonds required for the written consent to any such amendment or modification, or (c) without its written consent thereto, modify any of the rights or obligations of the Trustee, all as more fully set forth in the Indenture.

It is hereby certified that all things, conditions and acts required to exist, to have happened and to have been performed precedent to and in the issuance of this Series 2005B Bond do exist, have happened and have been performed in due time, form and manner as required by the Constitution and statutes of the State of California and by the Act (as such term is defined on the reverse side hereof) and the amount of this Series 2005B Bond, together with all other indebtedness of the Authority, does not exceed any limit prescribed by the Constitution or statutes of the State of California or by the Act.

This Series 2005B Bond shall not be entitled to any benefit under the Indenture (as such term is defined on the reverse side hereof), or become valid or obligatory for any purpose, until the certificate of authentication hereon shall have been signed by the Trustee.

IN WITNESS WHEREOF, the Authority has caused this Series 2005B Bond to be executed in its name and on its behalf by the facsimile signatures of its President and Secretary all as of the Original Issue Date identified above.

MORGAN HILL FINANCING AUTHORITY

By _____
President

Attest:

Secretary

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This is one of the Series 2005B Bonds described in the within-mentioned Indenture and registered on the Bond Registration Books.

THE BANK OF NEW YORK TRUST
COMPANY, N.A.,
as Trustee

Date: _____

By _____
Authorized Signatory

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[FORM OF ASSIGNMENT]

For value received the undersigned do(es) hereby sell, assign and transfer unto _____ whose tax identification number is _____, the within-mentioned registered Bond and hereby irrevocably constitute(s) and appoint(s) attorney to transfer the same on the books of the Trustee with full power of substitution in the premises.

Dated: _____

Signature guaranteed:

NOTE: The signature(s) on this Assignment must correspond with the name(s) as written on the face of the within Bond in every particular without alteration or enlargement or any change whatsoever.

NOTE: Signature(s) must be guaranteed by a member of an institution which is a participant in the Securities Transfer Agent Medallion Program (STAMP) or other similar program.

=====

FINANCIAL ADVISOR AGREEMENT RBC DAIN RAUSCHER INC.

THIS AGREEMENT is made this 26th day of January, 2005, by the CITY OF MORGAN HILL, a municipal corporation, ("CITY"), and RBC DAIN RAUSCHER INC., California corporation ("CONSULTANT").

RECITALS

The following recitals are a substantive part of this Agreement:

1. This Agreement is entered into pursuant to City Council approval on January 26, 2005.
2. CONSULTANT is qualified by virtue of experience, training, education, and expertise to accomplish these services.

AGREEMENT

THE PARTIES MUTUALLY AGREE AS FOLLOWS:

Term of Agreement. This Agreement relates to the issuance by the City of its Morgan Hill Financing Authority Reassessment Revenue Bonds, Series 2005A and Series 2005B (Taxable) (Madrone Business Park) ("OBLIGATION") which the City intends to issue in order to refund the outstanding City of Morgan Hill Limited Obligation Improvement Bonds, Assessment District No. 2000-1, Series A 2000 and Series B 2000 (Taxable) (Madrone Business Park) and covers services rendered from the date of this Agreement until the closing of the OBLIGATION.

Services to be Provided. The services to be performed by CONSULTANT shall consist of those services as provided in Appendix A herein.

Compensation. CONSULTANT shall receive a fee of \$50,000.00 for services rendered under this Agreement plus reimbursement of any out-of-pocket expenses incurred by CONSULTANT which are directly related to the issuance of the OBLIGATION. Payment of CONSULTANT'S fee and expenses is contingent upon the closing of the OBLIGATION and will be paid from proceeds of the OBLIGATION at the time of closing.

Termination. CITY and CONSULTANT shall have the right to terminate this Agreement, without cause, by giving thirty (30) days' written notice.

Insurance Requirements.

Commencement of Work. CONSULTANT shall not commence work under this Agreement until it has obtained CITY approved insurance. For a general liability policy, CONSULTANT shall provide CITY, prior to commencement of

work, with a separate endorsement that states that the policy contains the following language:

1. The CITY, its elected officials, officers, employees, agents and representatives are named as additional insureds; and,
2. the insurer waives the right of subrogation against CITY and CITY'S elected officials, officers, employees, agents, and representatives; and,
3. insurance shall be primary non-contributing.

CONSULTANT shall furnish CITY with copies of certificates subject to this Agreement, whether new or modified, promptly upon receipt. The insurer will endeavor to give CITY thirty (30) days' notice if a policy subject to this Agreement shall be cancelled or materially changed.

Workers Compensation Insurance. CONSULTANT and all subcontractors shall maintain Worker's Compensation Insurance, if applicable.

Insurance Types and Amounts. CONSULTANT shall maintain general commercial liability insurance against claims and liabilities for personal injury, death, or property damage, providing protection of at least \$1,000,000 for bodily injury or death to any one person for any one accident or occurrence and at least \$1,000,000 for property damage. CONSULTANT shall also maintain professional liability insurance in an amount of \$1,000,000 per claim.

Acceptability of Insurers. All insurance required by this Agreement shall be carried only by responsible insurance companies licensed to do business in California. Insurance is to be placed with insurers with a current A.M. Best's rating of no less than A:VII.

Non-Liability of Officials and Employees of the CITY. No official or employee of CITY shall be personally liable for any default or liability under this Agreement.

Non-Discrimination. CONSULTANT covenants there shall be no discrimination based upon race, color, creed, religion, gender, marital status, age, disability, national origin, or ancestry, in any activity pursuant to this Agreement.

Independent Contractor. It is agreed to that CONSULTANT shall act and be an independent contractor and not an agent or employee of CITY.

Compliance with Law. CONSULTANT shall comply with all applicable laws, ordinances, codes, and regulations of the federal, state, and local government.

Ownership of Work Product. All documents or other information developed or received by CONSULTANT for work performed under this agreement shall be the property of CITY. CONSULTANT shall provide CITY with copies of these items upon demand or upon termination of this Agreement.

Conflict of Interest and Reporting. CONSULTANT shall at all times avoid conflict of interest or appearance of conflict of interest in performance of this Agreement.

Notices. All notices shall be personally delivered or mailed, via first class mail to the below listed address. These addresses shall be used for delivery of service of process. Notices shall be effective five (5) days after date of mailing, or upon date of personal delivery.

Address of CONSULTANT is as follows:

Richard Morales, Principal
RBC Dain Rauscher Inc.
345 California Street, Ste. 2800
San Francisco, CA 94104
Attn.: Fixed Income Banking

Address of CITY is as follows:

Finance Director	with a copy to:
City of Morgan Hill	City Clerk
17555 Peak Avenue	17555 Peak Avenue
Morgan Hill, CA 95037	Morgan Hill, CA
	95037

CONSULTANT'S Proposal. This Agreement shall include CONSULTANT'S proposal or bid, which is incorporated herein. In the event of any inconsistency between the terms of the proposal and this Agreement, this Agreement shall govern.

Familiarity with Work. By executing this Agreement, CONSULTANT warrants that (1) it has investigated the work to be performed; (2) it has investigated the site of the work and is aware of all conditions there; and (3) it understands the difficulties and restrictions of the work under this Agreement. Should CONSULTANT discover any conditions materially differing from those inherent in the work or as represented by CITY, it shall immediately inform CITY and shall not proceed, except at CONSULTANT'S risk, until written instructions are received from CITY.

Time of Essence. Time is of the essence in the performance of this Agreement.

Limitations Upon Subcontracting and Assignment. Neither this Agreement or any portion shall be assigned by CONSULTANT, without prior written consent of CITY.

Authority to Execute. The persons executing this Agreement on behalf of the parties warrant that they are duly authorized to execute this Agreement.

Disclosure.

CITY acknowledges that it is responsible for the contents of its disclosure document and is subject to and may be held liable under federal securities laws for violations thereof, including misleading or incomplete disclosure. To the extent permissible by law, CITY agrees to indemnify and hold CONSULTANT harmless against any losses, claims, damages or liabilities to which it may become subject under federal or state securities laws or regulations, at common law or otherwise (including in settlement of any litigation if such settlement is effected with the written consent of the CITY), insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon omission to state in the disclosure document a material fact required to be stated therein or necessary to make the statements therein not misleading; and will reimburse CONSULTANT for any legal or other expenses reasonably incurred by it in connection with investigating or defending any such loss, claim, damage, liability or action.

Indemnification. All actions taken and all recommendations made by CONSULTANT in performing its duties under this Agreement will be based on its best professional judgment with the goal of obtaining the most favorable terms for the CITY and is not a guarantee of result. However, for claims arising from CONSULTANT'S professional acts or omissions, CONSULTANT agrees to protect, defend and hold harmless the CITY and its elective or appointive boards, officers, agents, and employees from any and all claims, liabilities, expenses, or damages of any nature, including reasonable attorneys' fees, for injury or death of any person, or damage to property, or interference with use of property, to the extent arising out of the grossly negligent performance and/or willful acts or omission of CONSULTANT, CONSULTANT'S agents, officers, employees, subcontractors, or independent contractors hired by CONSULTANT; provided that such losses, claims, damages or liabilities are not attributable to the CITY'S own negligence or misconduct in carrying out its duties.

For any other claim arising from any other act or omission, performance or non-performance by CONSULTANT under this Agreement, CONSULTANT agrees to protect, defend and hold harmless CITY and its elective or appointive boards, officers, agents, and employees from any and all claims, liabilities, expenses, or damages of any nature, including reasonable attorneys' fees, for injury or death of any person, or damage to property, or interference with use of property, to the extent arising out of this Agreement

by CONSULTANT, CONSULTANT'S agents, officers, employees, subcontractors, or independent contractors hired by CONSULTANT.

The only exception to CONSULTANT'S above-named responsibilities to protect, defend, and hold harmless CITY is due to the sole negligence of CITY as adjudged by a court of competent jurisdiction. CONSULTANT shall bear any initial burden of protection, defense, and hold harmless until such court judgment is rendered.

This Agreement shall apply to all liability, regardless of whether any insurance policies are applicable. Policy limits do not act as a limitation upon the amount of indemnification to be provided by CONSULTANT.

Modification. This Agreement constitutes the entire agreement between the parties and supersedes any previous agreements, oral or written. This Agreement may be modified or provisions waived only by subsequent mutual written agreement executed by CITY and CONSULTANT.

California Law. This Agreement shall be construed in accordance with the laws of the State of California. Any action commenced about this Agreement shall be filed in the Santa Clara County Superior Court.

Interpretation. This Agreement shall be interpreted as though prepared by both parties.

Preservation of Agreement. Should any provision of this Agreement be found invalid or unenforceable, the decision shall affect only the provision interpreted, and all remaining provisions shall remain enforceable.

IN WITNESS THEREOF, these parties have executed this Agreement on the day and year shown below.

ATTEST:

THE CITY OF MORGAN HILL

City Clerk

Date: _____

City Manager

Date: _____

APPROVED:

“CONSULTANT”

Risk Manager

Date: _____

By:

Date: _____

APPROVED AS TO FORM:

City Attorney

Date: _____

APPENDIX A

FINANCIAL ADVISOR SCOPE OF SERVICES

RBC Dain Rauscher Inc. proposes to act as financial advisor to the City of Morgan Hill, California (the "City") on the issuance of the Morgan Hill Financing Authority Reassessment Revenue Bonds, Series 2005A and 2005B (Taxable) (Madrone Business Park) (the "Obligation"). The Obligation will be issued by the City with the purpose of refunding it's outstanding City of Morgan Hill Limited Obligation Improvement Bonds, Assessment District No. 2000-1, Series A 2000 and Series B 2000 (Taxable) (Madrone Business Park). The Obligation will be issued pursuant to a negotiated sale with a third party underwriting firm.

To fulfill these duties as financial advisor, we agree to perform the following:

- (a) We will conduct a review of the financial resources of the Madrone Business Park Assessment District (the "District") to determine the ability to repay the Obligation. This review will include an analysis of (1) the existing debt structure in relation to the revenue that is pledged to secure payment of the Obligation to be issued, and (2) where appropriate, historical and projected trends (as estimated by representatives of the City) of assessed valuation, property owner financial resources, delinquencies, and diversity of property ownership in the District. On the basis of the information and estimates developed through our review described above and other information that we consider appropriate, we will provide recommendations with respect to a plan of finance for the issuance of the Obligation that will include (1) the date of issue, (2) interest rate structure (fixed or variable), (3) interest payment dates, (4) a schedule of maturities, (5) early redemption provisions, (6) security provisions, and (7) other matters that we consider appropriate to increase the marketability of the Obligation.
- (b) In order to assist you in selecting a date for the sale of the Obligation, we will advise you of current conditions in the relevant debt market, upcoming bond issues, and other general information and economic data which might reasonably be expected to influence interest rates or bidding conditions.
- (c) We understand that you have retained a nationally recognized municipal bond counsel firm whose fees will be paid by you from the proceeds of the Obligation, who will prepare the proceedings, who will

provide advice concerning the steps necessary to be taken to issue the Obligation, and who will issue an opinion (in a form standard for the particular type of financing) approving the legality of the Obligation and tax exemption of the interest paid thereon. In addition, your bond counsel, also acting as disclosure counsel, will issue an opinion to the effect that the disclosure document does not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements contained therein, in light of the circumstances under which they were made, not misleading (subject to market exceptions). We will at all times maintain liaison with your bond counsel firm and shall assist in all financial advisory aspects involved in the preparation of appropriate legal proceedings and documents.

- (d) We will assist your disclosure counsel in the preparation of the disclosure documents, including the Preliminary Official Statement and the Official Statement.
- (e) In connection with the negotiated sale of the Obligation, we will assist you in the retention of an underwriting firm that will be responsible for marketing, pricing and underwriting of the Obligation.
- (f) We will coordinate with the underwriter the process of pricing the Obligation, including advising as to the appropriate interest rates for the Obligation, underwriter's discount, optional redemption provisions and any other pricing elements of the Obligation.
- (g) In the event formal verification by an independent auditor of any calculations incident to the Obligation is required, we will make arrangements for such services.
- (h) Unless it is deemed that the Obligation should be issued on a non-rated basis, we will make recommendations to the City on the matter of credit rating(s) for the proposed Obligation, including coordinating the preparation of information to be submitted to any rating agency. In those cases where it is appropriate to personally present information to any rating agency, we will arrange for and orchestrate such presentation.
- (i) If appropriate and feasible, we will make recommendations to the City as to the advisability of obtaining municipal bond insurance or other credit enhancement, or qualifications for such insurance or enhancement, for the Obligation, and we will coordinate the preparation of such information as, in our opinion, is required for submission to the appropriate credit enhancer. In those cases where the advisability of personal presentation of information to the credit enhancer may be indicated, we will arrange for and orchestrate such personal presentations. The premiums for said insurance, if deemed advisable,

will be paid by the City if purchased directly or the underwriters if purchased via bidder's option.

- (j) We will attend any and all meetings of the City Council of the City, its staff, representatives or committees as requested at all times when we may be of assistance or service and the subject of the Obligation is to be discussed.
- (k) After closing, we will deliver to the City definitive debt records, including a schedule of annual debt service requirements on the Obligation.

**CONSULTANT AGREEMENT
RICHARDS, WATSON & GERSHON, A PROFESSIONAL CORPORATION**

THIS AGREEMENT is made this 26th day of January 2005, by the CITY OF MORGAN HILL, a municipal corporation, ("CITY"), and Richards, Watson & Gershon, A Professional Corporation ("CONSULTANT").

RECITALS

The following recitals are a substantive part of this Agreement:

1. This Agreement is entered into pursuant to City Council approval on January 26, 2005.
2. CONSULTANT is qualified by virtue of experience, training, education, and expertise to accomplish these services.

AGREEMENT

THE PARTIES MUTUALLY AGREE AS FOLLOWS:

1. **Term of Agreement**. This Agreement shall cover services rendered from November 1, 2004, until June 30, 2005.
2. **Services to be Provided**. The services to be performed by CONSULTANT shall consist of special legal counsel services in the nature of bond counsel services and disclosure counsel services in connection with the issuance of Assessment District 2000-1 (Madrone Business Park) refunding bonds by or on behalf of the CITY.
3. **Compensation**. CONSULTANT shall be compensated as follows:
 - 3.1. **Amount**. Compensation under this Agreement shall not exceed \$50,000 for bond counsel services and \$25,000 for disclosure counsel services and shall be contingent upon closing of the bond financing. In addition, CONSULTANT shall be reimbursed for expenses such as duplication costs, telecommunications, publications costs, filing fees, delivery services, printing costs and travel undertaken at the request of City officers.
 - 3.2. **Payment**. For work under this Agreement, payment shall be made per invoice.
 - 3.3. **Records of Expenses**. CONSULTANT shall keep accurate records of payroll, travel, and expenses. These records will be made available to CITY.
 - 3.4. **Termination**. CITY and CONSULTANT shall have the right to terminate this Agreement, without cause, by giving fifteen (15) days' written notice.

4. **Insurance Requirements.**

4.1. **Commencement of Work.** CONSULTANT shall not commence work under this Agreement until it has obtained CITY approved insurance. For general liability and automobile insurance policies, CONSULTANT shall provide CITY, prior to commencement of work, with a separate endorsement which states that the policy contains the following language:

- The CITY, its elected officials, officers, employees, agents and representatives are named as additional insureds; and,
- the insurer waives the right of subrogation against CITY and CITY'S elected officials, officers, employees, agents, and representatives; and,
- insurance shall be primary non-contributing.

CONSULTANT shall furnish CITY with copies of all policies or certificates subject to this Agreement, whether new or modified, promptly upon receipt. No policy subject to this Agreement shall be cancelled or materially changed except after thirty (30) days' notice by the insurer to CITY by certified mail.

4.2. **Workers Compensation Insurance.** CONSULTANT and all subcontractors shall maintain Worker's Compensation Insurance, if applicable.

4.3. **Insurance Types and Amounts.** CONSULTANT shall maintain general commercial liability and automobile insurance against claims and liabilities for personal injury, death, or property damage, providing protection of at least \$1,000,000 for bodily injury or death to any one person for any one accident or occurrence and at least \$1,000,000 for property damage. CONSULTANT shall also maintain professional liability insurance in an amount of \$1,000,000 per claim.

4.4. **Acceptability of Insurers.** All insurance required by this Agreement shall be carried only by responsible insurance companies licensed to do business in California. Insurance is to be placed with insurers with a current A.M. Best's rating of no less than A:VII.

4.5. **Provision of Agreement to Insurers.** CONSULTANT represents and warrants that they have provided a copy of this Agreement to their respective insurers, and the insurers are aware of all obligations pertaining to CONSULTANT as stated in this Agreement.

5. **Non-Liability of Officials and Employees of the CITY.** No official or employee of CITY shall be personally liable for any default or liability under this Agreement.

6. **Non-Discrimination.** CONSULTANT covenants there shall be no discrimination based upon race, color, creed, religion, gender, marital status, age, disability, national origin, or ancestry, in any activity pursuant to this Agreement.

7. **Independent Contractor**. It is agreed to that CONSULTANT shall act and be an independent contractor and not an agent or employee of CITY.
8. **Compliance with Law**. CONSULTANT shall comply with all applicable laws, ordinances, codes, and regulations of the federal, state, and local government.
9. **Ownership of Work Product**. All documents or other information developed or received by CONSULTANT for work performed under this agreement shall be the property of CITY. CONSULTANT shall provide CITY with copies of these items upon demand or upon termination of this Agreement.
10. **Conflict of Interest and Reporting**. CONSULTANT shall at all times avoid conflict of interest or appearance of conflict of interest in performance of this Agreement.
11. **Notices**. All notices shall be personally delivered or mailed, via first class mail to the below listed address. These addresses shall be used for delivery of service of process. Notices shall be effective five (5) days after date of mailing, or upon date of personal delivery.

Address of CONSULTANT is as follows:

Richards, Watson & Gershon
355 South Grand Avenue, Suite 4000
Los Angeles, California 90071

Address of CITY is as follows:

Finance Director	with a copy to:
City of Morgan Hill	City Clerk
17555 Peak Avenue	17555 Peak Avenue
Morgan Hill, CA 95037	Morgan Hill, CA 95037

12. **CONSULTANT'S Proposal**. This Agreement shall include CONSULTANT'S proposal or bid, which is incorporated herein. In the event of any inconsistency between the terms of the proposal and this Agreement, this Agreement shall govern.
13. **Licenses, Permits, and Fees**. CONSULTANT shall obtain a City of Morgan Hill Business License, all permits, and licenses as may be required by this Agreement.
14. **Familiarity with Work**. By executing this Agreement, CONSULTANT warrants that: (1) it has investigated the work to be performed; (2) it has investigated the site of the work and is aware of all conditions there; and (3) it understands the difficulties and restrictions of the work under this Agreement. Should CONSULTANT discover any conditions materially differing from those inherent in the work or as represented by CITY, it shall immediately inform CITY and shall not proceed, except at CONSULTANT'S risk, until written instructions are received from CITY.
15. **Time of Essence**. Time is of the essence in the performance of this Agreement.

16. **Limitations Upon Subcontracting and Assignment.** Neither this Agreement or any portion shall be assigned by CONSULTANT, without prior written consent of CITY.

17. **Authority to Execute.** The persons executing this Agreement on behalf of the parties warrant that they are duly authorized to execute this Agreement.

18. **Indemnification.**

18.1. For claims arising from CONSULTANT'S professional acts or omissions, CONSULTANT agrees to protect, defend and hold harmless CITY and its elective or appointive boards, officers, agents, and employees from any and all claims, liabilities, expenses, or damages of any nature, including reasonable attorneys' fees, for injury or death of any person, or damage to property, or interference with use of property, to the extent arising out of the negligence performance and/or willful acts or omission of CONSULTANT, CONSULTANT'S agents, officers, employees, subcontractors, or independent contractors hired by CONSULTANT.

18.2. For any other claim arising from any other act or omission, performance or non-performance by CONSULTANT under this Agreement, CONSULTANT agrees to protect, defend and hold harmless CITY and its elective or appointive boards, officers, agents, and employees from any and all claims, liabilities, expenses, or damages of any nature, including reasonable attorneys' fees, for injury or death of any person, or damage to property, or interference with use of property, to the extent arising out of this Agreement by CONSULTANT, CONSULTANT'S agents, officers, employees, subcontractors, or independent contractors hired by CONSULTANT.

18.3. The only exception to CONSULTANT'S above-named responsibilities to protect, defend, and hold harmless CITY is due to the sole negligence of CITY as adjudged by a court of competent jurisdiction. CONSULTANT shall bear any initial burden of protection, defense, and hold harmless until such court judgment is rendered.

18.4. This agreement shall apply to all liability, regardless of whether any insurance policies are applicable. Policy limits do not act as a limitation upon the amount of indemnification to be provided by CONSULTANT.

19. **Modification.** This Agreement constitutes the entire agreement between the parties and supersedes any previous agreements, oral or written. This Agreement may be modified or provisions waived only by subsequent mutual written agreement executed by CITY and CONSULTANT.

20. **California Law.** This Agreement shall be construed in accordance with the laws of the State of California. Any action commenced about this Agreement shall be filed in the Santa Clara County Superior Court.

21. **Interpretation.** This Agreement shall be interpreted as though prepared by both parties.

22. **Preservation of Agreement.** Should any provision of this Agreement be found invalid or unenforceable, the decision shall affect only the provision interpreted, and all remaining provisions shall remain enforceable.

IN WITNESS THEREOF, these parties have executed this Agreement on the day and year shown below.

ATTEST:

THE CITY OF MORGAN HILL

City Clerk

City Manager

Date: _____

Date: _____

APPROVED:

“CONSULTANT”

Risk Manager

By: William L. Strausz

Date: _____

Date:

APPROVED AS TO FORM:

City Attorney

Date: _____

CONSULTANT AGREEMENT
NAME OF CONSULTANT

THIS AGREEMENT is made this _____ day of _____, 2005, by the CITY OF MORGAN HILL, a municipal corporation, ("CITY"), and NBS Government Finance Group DBA NBS, a California S-corporation ("CONSULTANT").

RECITALS

The following recitals are a substantive part of this Agreement:

1. This Agreement is entered into pursuant to City Council approval on January 26, 2005.
2. CONSULTANT is qualified by virtue of experience, training, education, and expertise to accomplish these services.

AGREEMENT

THE PARTIES MUTUALLY AGREE AS FOLLOWS:

1. **Term of Agreement.** This Agreement shall cover services rendered from December 1, 2004, to until terminated.
2. **Services to be Provided.** The services to be performed by CONSULTANT shall consist of those services described in Exhibit A.
3. **Compensation.** CONSULTANT shall be compensated as follows:
 - 3.1. **Amount.** Compensation under this Agreement shall not exceed \$5,250.
 - 3.2. **Payment.** For work under this Agreement, payment shall be made per monthly invoice. For extra work not a part of this Agreement, written authorization by CITY will be required, payment shall be based on hourly rates in Exhibit "A" attached and incorporated herein by this reference.
 - 3.3. **Records of Expenses.** CONSULTANT shall keep accurate records of payroll, travel, and expenses. These records will be made available to CITY.
 - 3.4. **Termination.** CITY and CONSULTANT shall have the right to terminate this Agreement, without cause, by giving fifteen (15) days' written notice.
4. **Insurance Requirements.**
 - 4.1. **Commencement of Work.** CONSULTANT shall not commence work under this Agreement until it has obtained CITY approved insurance. For general liability and automobile insurance policies, CONSULTANT shall provide CITY, prior to commencement of work, with a separate endorsement which states that the policy contains the following language:

- The CITY, its elected officials, officers, employees, agents and representatives are named as additional insureds; and,
- the insurer waives the right of subrogation against CITY and CITY'S elected officials, officers, employees, agents, and representatives; and,
- insurance shall be primary non-contributing.

CONSULTANT shall furnish CITY with copies of all policies or certificates subject to this Agreement, whether new or modified, promptly upon receipt. No policy subject to this Agreement shall be cancelled or materially changed except after thirty (30) days' notice by the insurer to CITY by certified mail.

4.2. Workers Compensation Insurance. CONSULTANT and all subcontractors shall maintain Worker's Compensation Insurance, if applicable.

4.3. Insurance Types and Amounts. CONSULTANT shall maintain general commercial liability and automobile insurance against claims and liabilities for personal injury, death, or property damage, providing protection of at least \$1,000,000 for bodily injury or death to any one person for any one accident or occurrence and at least \$1,000,000 for property damage. CONSULTANT shall also maintain professional liability insurance in an amount of \$1,000,000 per claim.

4.4. Acceptability of Insurers. All insurance required by this Agreement shall be carried only by responsible insurance companies licensed to do business in California. Insurance is to be placed with insurers with a current A.M. Best's rating of no less than A:VII.

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11. **Notices.** All notices shall be personally delivered or mailed, via first class mail to the below listed address. These addresses shall be used for delivery of service of process. Notices shall be effective five (5) days after date of mailing, or upon date of personal delivery.

Address of CONSULTANT is as follows:
NBS Government Finance Group DBA NBS
41661 Enterprise Circle North, Suite 225
Temecula, CA 92590

Address of CITY is as follows:

Finance Director	with a copy to:
City of Morgan Hill	City Clerk
17555 Peak Avenue	17555 Peak Avenue
Morgan Hill, CA 95037	Morgan Hill, CA 95037

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or omission of CONSULTANT, CONSULTANT'S agents, officers, employees, subcontractors, or independent contractors hired by CONSULTANT.

18.2. For any other claim arising from any other act or omission, performance or non-performance by CONSULTANT under this Agreement, CONSULTANT agrees to protect, defend and hold harmless CITY and its elective or appointive boards, officers, agents, and employees from any and all claims, liabilities, expenses, or damages of any nature, including reasonable attorneys' fees, for injury or death of any person, or damage to property, or interference with use of property, to the extent arising out of this Agreement by CONSULTANT, CONSULTANT'S agents, officers, employees, subcontractors, or independent contractors hired by CONSULTANT.

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22. **Preservation of Agreement.** Should any provision of this Agreement be found invalid or unenforceable, the decision shall affect only the provision interpreted, and all remaining provisions shall remain enforceable.

IN WITNESS THEREOF, these parties have executed this Agreement on the day and year shown below.

ATTEST:

THE CITY OF MORGAN HILL

City Clerk

Date: _____

City Manager

Date _____

APPROVED:

“CONSULTANT”

Risk Manager

Date: _____

By:

Date: _____

APPROVED AS TO FORM:

City Attorney

Date: _____

Standard Consultant Agreement-Professional Consultant.doc



Local Government Solutions

January 17, 2005

Mr. Jack Dilles
Finance Director
City of Morgan Hill
17555 Peak Ave.
Morgan Hill, CA 95037

Subject: Addendum to Original Agreement to Add Reassessment Engineering Services for the City of Morgan Hill's Assessment District No. 2000-1 (Madrone Business Park)

Dear Mr. Dilles:

NBS would like to thank you for the opportunity to provide Reassessment Engineering Services for the City of Morgan Hill ("City") as referenced above. We will add this service to our existing agreement with the City. All other provisions of the existing contract between the City and **NBS** remain in effect. We look forward to continuing our professional relationship.

Please find enclosed two (2) copies of our Executed Agreement. Upon signing, please return one copy to the undersigned and keep one copy for your records.

Scope of Services

[Reassessment Consulting Services]

NBS will prepare a Reassessment Report as required by the *California Streets and Highways Code* §9523. The Report will contain the following:

- A schedule setting forth the unpaid principal and interest on the bonds to be refunded and the total amounts thereof.
- The total estimated principal amount of the reassessment and of the refunding bonds and the maximum interest rate thereon, together with an estimate of cost of the reassessment and of issuing the refunding bonds, including all costs of issuing the refunding bonds, as defined by subdivision (a) of Section 9600.
- The auditor's record kept pursuant to Section 8682 showing the schedule of principal installments and interest on all unpaid original assessments and the total amounts thereof.
- The estimated amount of each reassessment, identified by reassessment number corresponding to the reassessment number on the reassessment diagram, together with a proposed auditor's record for the reassessment prepared in the manner described in Section 8682.
- A reassessment diagram showing the assessment district and the boundaries and dimensions of the subdivisions of land within the district. Each subdivision, including each separate condominium interest as defined in Section 783 of the Civil Code, shall be given a separate number upon the diagram.

- A declaration of the method of reassessment. If any delinquent assessments are funded, a detail of the amounts capitalized will be included in the declaration of the method of spread.
- Final reports and recordations shall be completed prior to bond sale.

In addition to the Reassessment Report, **NBS** will provide disclosure information for the District. The information will be based upon the 2003/04 County Secured Tax Roll (or the most current data available) and the current Delinquency Redemption data available. **NBS** will process the data and provide the following:

- Current and prior years' assessment delinquencies. This will include the amounts delinquent and any penalty and interest penalty accrued.
- Reports of Assessed Valuation and Property Ownership will be prepared upon request of the Financing Team. Examples of available reports are, a) Top 25 property owners, b) Aggregate and individual lien to value calculations, c) Lien to value as a percentage of reassessment, and others.

NBS will review all draft and final financing documents and be available for any teleconference or Team meetings. **NBS** will also obtain the necessary documents and signatures to record the District Diagram and Notice of Reassessment, record the Diagram and Notice and provide conformed copies upon request.

Fees

|Reassessment Consulting Services|

Assessment District No. 2000-1 (Madrone Business Park)\$5,000
(Parcel Count = 20)

Remaining Principal after 2003/04 Levy = \$10,180,000
Outstanding Principal after 9/2/04 Payment = \$10,060,000
(Series A \$8,620,000, Series B \$1,440,000)

|Expenses|

Customary out-of-pocket expenses will be billed to the City at actual cost to **NBS**. These expenses may include, but are not limited to travel, postage, telephone, reproduction, meals and various County charges for tapes, maps, and recording fees.

|Additional Services|

Following is the current hourly rate. Additional services authorized by the City will be billed at this rate or the then-applicable hourly rate.

Title	Hourly Rate
Director	\$ 135
Engineer	125
Senior Consultant/Programmer	110
Consultant	85
Analyst	65
Clerical/Support	45

Please feel free to contact me if you have any questions or need further information.

Best regards,
**NBS Government Finance Group,
DBA NBS**

City of Morgan Hill



Mike Rentner

Name

President and CEO

Title

1/17/05

Date

Title

Date

January 11, 2005

Mr. Jack Dilles
Finance Director
City of Morgan Hill

C/O Mr. Richard Kiss
Managing Director
Piper Jaffray, Inc.
345 California Street, Suite 2200
San Francisco, CA 94104

Phone: 415-984-5170
Phone: 949-981-3739
Fax to: 415-984-5159

Dear Mr. Dilles:

This letter is a proposal for Carneghi-Blum & Partners, Inc. to provide the City of Morgan Hill and Piper Jaffray, Inc. with an appraisal of 7 vacant land parcels of real estate in the City of Morgan Hill Madrone Business Park Assessment District No. 2000-1 identified as follows:

APN	Owner
726-35-007	TBI MISSION W II L
726-35-028	TBI MISSION W LLC
726-35-015	TBI MISSION W II L
726-35-020	TBI MISSION W II L
726-33-028	MADRONE LAND CORPO
726-33-025	MADRONE LAND CORPO
726-33-026	MADRONE LAND CORPO

Our appraisal would address the current as is fee simple market value of each of the above individual assessment parcels. It is my understanding that our appraisal would be used for the refinancing of Assessment District 2000-1. The report will be prepared for the City of Morgan Hill and Piper Jaffray and the report should not be used or relied upon by any other parties for any reason without our written consent. We do understand that a copy of the appraisal will be included in the Official Statement relating to the refunding bonds to be issued by the City and hereby give our consent to such inclusion.

It is my understanding that we will not be receiving a preliminary title reports for the assessment parcels to be appraised and will instead rely on the Assessor Parcel Numbers for legal identification. We will also require any other material you have that would assist us in analyzing the property. Your cooperation in providing us this information is required in order for us to complete our work in a timely manner.

It will take us approximately 30 days from receipt of notice to proceed in the form of a signed copy of this letter in order to complete this assignment. You will receive four copies of our complete appraisal in a narrative summary report. It is your responsibility to read the report and to inform the appraiser of any errors or omissions of which you are aware, prior to utilizing the report or making it available to any third party. The assignment will be done in conformity with the requirements of the Code of Professional Ethics and Standards of Professional Practice of the Appraisal Institute. Our fee for this work will be \$6,000 plus any incidental expenses such as additional copies of our appraisal report, travel, photos or renderings, or special deliveries. We require a signed letter of authorization in order to begin work on an assignment.

If this proposal is acceptable to you, please sign one copy of this letter and return it to me at our SAN JOSE office. Your signature serves as our authorization to proceed; it is my understanding that our fee is being guaranteed by Piper Jaffray, Inc. at completion; the fee is payable whether or not a bond issue is successfully completed. If the proposed bonds are not issued for any reason, Piper Jaffray, and not the City, shall be responsible for paying our fees. Accounts are due in full Net 60 days. If payment is not received within 60 days, the unpaid balance will be subject to a finance charge of 1.0% per month. If there should be a dispute concerning payment of our fees in this matter, this contract will be interpreted according to the Laws of the State of California and the prevailing party will also be entitled to attorney fees and collection costs. If you have any questions concerning this proposal, please contact me. We look forward to working with you on this assignment.

Sincerely,

CARNEGHI-BLUM & PARTNERS, INC.



Chris Carneghi, MAI

Accepted By: _____

Print or Type Name: _____

Title: _____

Date: _____